

City of Midland, Michigan

Comprehensive Annual Financial Report with Supplemental Information June 30, 2005

City of Midland, Michigan

About the Cover

Children and adults alike will enjoy skating the hours away at Midland's new 107,000 square-foot Civic Arena. The \$10.3 million arena was completed and opened for business September 2005, and boasts two NHL-sized rinks and an Olympic-sized rink. Hockey, ice skating, figure skating... there's something for everyone to enjoy.

City of Midland, Michigan

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October 7, 2005

Honorable Mayor and City Council
City of Midland
Midland, Michigan

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Midland for the fiscal year ended June 30, 2005. The City Charter and the Michigan Uniform Budgeting and Accounting Act require the City of Midland (the City) to prepare an annual financial report in accordance with accounting principles generally accepted in the United States (GAAP), and audited in accordance with generally accepted auditing standards. Accordingly, we hereby issue the CAFR of the City of Midland for the year ended June 30, 2005. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association.

This report consists of management's representations concerning the finances of the City. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Plante & Moran, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Midland for the fiscal year ended June 30, 2005, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the

overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the year ended June 30, 2005 are fairly presented in conformity with GAAP, and Governmental Auditing Standards issued by the Comptroller General of the United States. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are presented separate from the CAFR.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City

The City of Midland was incorporated in 1887. Located near the center of the eastern portion of Michigan's lower peninsula, approximately 120 miles northwest of Detroit, the City currently occupies a land area of 35.7 square miles and, according to the 2000 Census, serves a population of 41,685. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered to extend its corporate limits by annexation, which occurs periodically in accordance with state statute and the terms of urban cooperation agreements between the City and its surrounding townships.

The City Charter calls for a council-manager form of government. The governing body consists of five council members who are elected on a non-partisan basis, one from each of the City's five wards and who, in turn choose one of their number to serve as mayor. The City Manager and City Attorney are appointed independently by the City Council. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City and for appointing heads of the various departments and all other City employees. The City Attorney oversees all legal matters of the City, including review of contracts and legal documents.

The City provides a full range of services including police and fire protection, community planning and zoning, building inspections, code enforcement, library, sanitation, water and wastewater treatment, construction and maintenance of highways, streets and infrastructure, recreation programs, parks, public transportation and cultural facilities.

The annual budget serves as the foundation for the City's financial planning and control. In April of each year, the City Manager presents a proposed budget to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. The Council approves appropriations on the functional basis, which is the legal level of control. Expenditures in excess of departmental appropriations are a violation of state law. Amounts not spent by the end of the fiscal year lapse, and require City Council approval to re-appropriate into the next year.

Assessing the City's Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the environment in which the City operates:

Local economy: The economic environment of the City has remained steady, despite the difficult economic conditions that the State of Michigan and neighboring communities face. Historically, the City has been recognized as a community that offers its residents many economic, cultural, recreational, and educational benefits. Today these benefits remain as promising as ever, thanks in large part to the growth the area continues to experience. Much of past economic development has focused on the commercial and industrial sector's growth through The Dow Chemical Company and Dow Corning Corporation. While it is true that Dow and Dow Corning are still the major influences, with enough undeveloped land within their fences to expand further during the near term, there has also been an increased amount of time and attention spent on attracting and accommodating other firms. This emphasis upon diversifying the economic base reflects a broader development strategy, which is expected to continue during both the short and long term.

Tax base and/or employment in the City is also provided by a cogeneration power plant facility, small-to-medium manufacturing companies, retail and service establishments, a regional health care organization, state and local educational institutions, financial institutions and local government. The City's July 2005 unemployment rate of 4.8 percent compares favorably to the state's average rate of 7.6 percent and the national average of 5.2 percent. The employed labor force of 20,710 represents a decrease of approximately 5.6 percent from the previous year.

The largest single revenue source is property taxes. The City's tax base has shown steady growth historically, averaging 2.2% over the past five years. However, in recent years that growth rate has slowed, growing less than 1% in 2005. In 1997, the City's three largest taxpayers filed property assessment appeals, involving approximately 25% of the total tax base. One of these appeals was settled during the current fiscal year. The City is involved in vigorously defending the remaining two appeals before the Michigan Tax Tribunal. Cash reserves of approximately \$36 million, have been established to provide funding in the event that substantial refunds are awarded in either of these cases. The City's tax base is approximately 35% residential and 65% commercial, industrial and utility. The commercial, industrial and utility sector is comprised of administrative, research and production

facilities of two large chemical companies, a cogeneration power plant and a variety of other industries and businesses. The three largest industrial/utility taxpayers make up 50% of the tax base. The City Charter allows a property tax rate of up to 18 mills, which is then reduced by the Headlee Amendment to 17.87 mills. During the 2004-05 fiscal year, the City levied only 9.23 of its authorized mills. Under applicable state statutes, the City is also authorized to levy up to one additional mill for libraries and up to 3 additional mills for solid waste management.

In the past fiscal year, the state continued to experience economic difficulties. Approximately 11% of the City's total General Fund revenues come from sales tax that is collected by the state and shared with local units of government. Because of reductions in statewide collections of sales, income, and single business taxes, the state government has had fewer dollars to pass through to the local units, and has retained a higher portion of the sales tax, in order to balance its own budget. This resulted in a decrease in state shared revenue in the current year.

Long-term financial planning: The City maintains master plans for its streets, parks and water and sewer systems, and continues to actively improve infrastructure that supports its citizens. An annual inventory of street condition, aided by a computerized pavement management system, assists in planning current and future street maintenance and construction expenditures. Requests for infrastructure improvements are received from external and internal sources each year in November and are publicly evaluated and prioritized. The resulting engineering priorities report becomes an integral part of the annual budget process.

The City recently completed constructing \$2.5 million in storm sewer collection system improvements to address the only developed area of the City experiencing drainage deficiencies.

The City also recently completed constructing water distribution system improvements in order to increase water pressure within the northeast section of the City, where water pressure objectives of 45-60 pounds per square inch are not being consistently met, primarily because of higher land elevation in the area where additional residential and commercial growth is occurring. This project was substantially completed during the 2003-04 fiscal year at an estimated cost of \$2.5 million. The City's long-range financial plans for the Water Fund provides for system improvements to be financed out of operating revenues, without issuing additional debt.

In the fall of 2004 the City began construction of a new 107,000 civic arena. The new facility will include two NHL-size rinks, and one Olympic-size rink, will have twelve locker rooms and seat 1,000 people. The City issued \$6.5 million in bonds, and collected \$4.5 million in pledges from area foundations and ice enthusiasts to fund the construction of the facility.

Cash Management Policies and Practices: Cash temporarily idle during the year was invested, as authorized by the City's formal investment policy and Michigan Public Act 20 of 1943, as amended, in certificates of deposit, obligations of the U.S. Treasury, commercial paper, repurchase agreements and certain investment pools.

Maturities of the investments range from 30 days to eighteen months, with an average maturity of approximately 90 days. The pension trust fund portfolio also includes common stocks, corporate bonds, collateralized mortgage obligations and asset backed securities. The average yield on investments was 1.92% for the City and an average yield of 5.1% for the pension trust fund. Investment income includes appreciation in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

Risk Management: The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The City has purchased commercial insurance for all liability, property and employee health care exposures. Settled claims relating to this insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City's maximum deductible for property and liability exposures is \$50,000 per occurrence. For employee injury claims, the City participates in the Michigan Municipal Workers Compensation Pool, a common risk-sharing/management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Pension and Other Post-employment Benefits: The City sponsors a single-employer, defined-benefit pension plan for its police and fire employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the City's conservative funding policy, the City has succeeded as of December 31, 2004 in funding 96.4% of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically amortized over 10 years as part of the annual required contribution calculation by the actuary.

The City also provides pension benefits that cover substantially all employees, other than police and fire employees. These benefits are provided through a state-wide plan managed by the Municipal Employees' Retirement System of Michigan (MERS). The City has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to MERS.

The City also provides post-employment health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 301 retired employees receiving these benefits, which are financed on a prefunding basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City's pension arrangements and post-employment benefits can be found in Notes 11 and 12 in the notes to the financial statements.

Awards and Acknowledgements

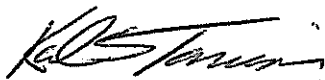
The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Midland for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the sixteenth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, which satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

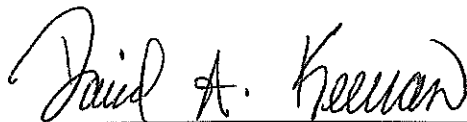
The preparation of this report was made possible by the dedicated service of the entire staff of the Finance Department, particularly that of Controller Margaret Maday, Assistant Controller Dana Strayer and Accountant Martha Rex. Each member of the Department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, the preparation of this document and the accomplishments reported therein would not have been possible without the leadership and support of the Midland City Council.

Sincerely,



Karl S. Tomion
City Manager



David A. Keenan
Director of Fiscal Services

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Midland,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



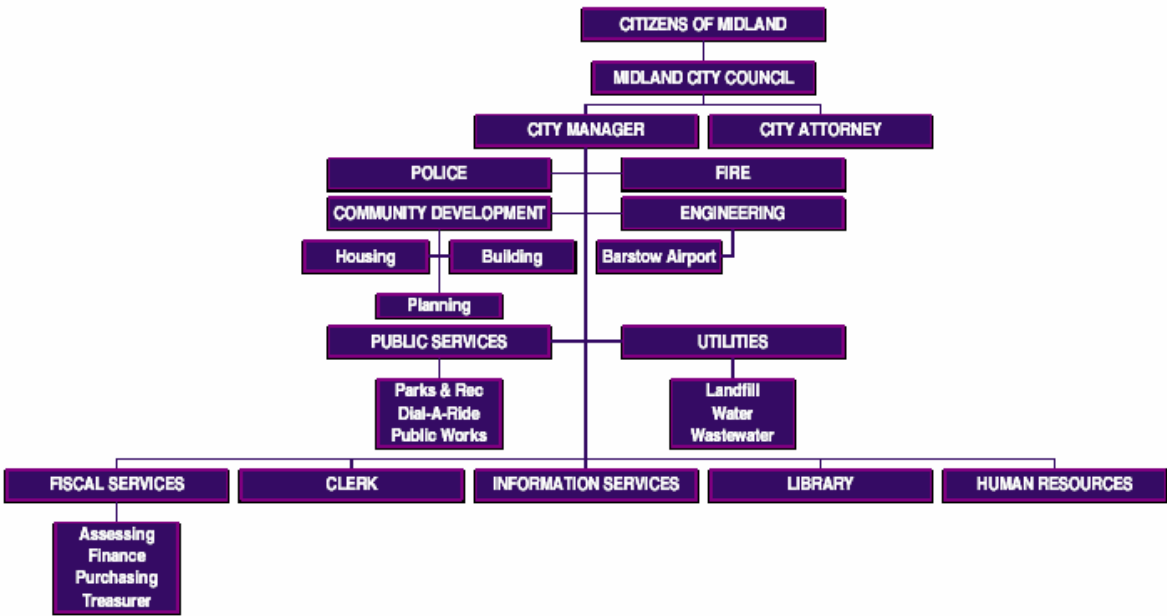
Nancy L. Zelle

President

Jeffrey R. Emer

Executive Director

Organizational Chart



City of Midland, Michigan

List of Principal Officials June 30, 2005

CITY COUNCIL

Mayor - Ward I	R. Drummond Black
Ward II	James S. Myers
Ward III	Hollis H. McKeag
Ward IV	Bruce A. Johnson
Ward V	Joseph M. Rokosz

ADMINISTRATIVE STAFF

City Manager	Karl S. Tomion
City Attorney	James O. Branson, III
Assistant City Manager	John E. Duso
Assistant City Manager, Director of Planning and Community Development	Jon J. Lynch
City Assessor	Reid A. Duford
City Clerk	Selina M. Tisdale
City Controller	Margaret A. Maday
City Engineer	Brian P. McManus
City Treasurer	Sandra K. Marshall
Chief Building Inspector	Lynn A. LaBrecque
Fiscal Services Director	David A. Keenan
Fire Chief	Leonardo Garcia
Human Resources Director	Paula J. Whittington
Information Services Director	John L. Birchmeier
Library Director	Melissa J. Barnard
Police Chief	James Q. St. Louis
Public Services Director	Martin W. McGuire
Purchasing Agent	Michael L. Meyer
Utilities Director	Noel D. Bush



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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Midland, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midland, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the major fund budgetary comparison schedules, and the retirement system schedule of funding progress as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and City Council
City of Midland, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Midland, Michigan's basic financial statements. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 7, 2005 on our consideration of the City of Midland, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/ Plante & Moran, PLLC

October 7, 2005

City of Midland, Michigan

Management's Discussion and Analysis

CITY OF MIDLAND, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended June 30, 2005

As management of the City of Midland (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements, and the notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$176,548,196. Of this amount, \$40,651,701 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$12,131,854 during the fiscal year. Governmental activities accounted for \$9,589,153 of this increase, while business-type activities accounted for \$2,542,701. The increases are primarily due to a large reduction in the tax appeal reserve account, which is shown as a liability in government activities.
- At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$56,586,414, a decrease of \$7,142,182 in comparison with prior year. Approximately 79 percent of this total, or \$44,925,070, is reserved for various purposes. Of the remaining unreserved balance, \$1,099,691 is designated for specific purposes, leaving an unreserved, undesignated balance of \$10,561,653.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,597,089, or 4.0 percent of total General Fund expenditures (including transfers).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works (highways and streets and other services), community development, sanitation, parks and recreation, library, airport, transportation, tax appeal defense, interest and agent fees, and other functions. The business-type activities of the City include a regional water distribution system, regional wastewater collection system, a sanitary landfill, a golf course, parking, and real estate rental (primarily two senior citizen housing facilities).

The government-wide financial statements can be found on pages 15-17 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state or local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Major Street Fund, both of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds, except for the Cemetery and Capital Projects Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 18 through 21 of this report.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses Enterprise Funds to account for water distribution, wastewater collection, sanitary landfill operations, downtown parking, senior citizen housing, and golf course operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for equipment and fleet operations, data processing services, general and liability insurance, special assessment project funding, and bus garage operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater, Real Estate Rental, and Sanitary Landfill Funds, which are considered to be major funds of the City. The remaining Enterprise Funds and the Internal Service Funds are each combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the remaining Enterprise Funds and the Internal Service Funds is provided in the form of combining statements elsewhere in this report.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

The basic proprietary fund financial statements can be found on pages 22 through 31 of this report.

Fiduciary Funds - Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs

The basic fiduciary funds financial statements can be found on page 32 and 33 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 through 68 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City. This information can be found on pages 69 through 73 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor Enterprise Funds, and Internal Services Funds are presented immediately following the required supplemental information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$176,548,196 at the close of the most recent fiscal year.

The largest portion of the City's net assets (70 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

City of Midland's Net Assets (in 1,000's of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 67,955	\$ 74,766	\$ 32,053	\$ 32,082	\$ 100,008	\$ 106,848
Capital assets	50,820	36,519	103,751	104,548	154,571	141,067
Total assets	118,775	111,285	135,804	136,630	254,579	247,915
Current liabilities	9,228	8,184	4,378	5,151	13,606	13,335
Long-term liabilities	40,659	43,792	23,766	26,362	64,425	70,154
Total liabilities	49,887	51,976	28,144	31,513	78,031	83,489
Net assets:						
Invested in capital assets, net of related debt	42,571	34,483	80,266	77,972	122,837	112,455
Restricted	11,840	9,586	1,219	1,219	13,059	10,805
Unrestricted	14,477	15,240	26,175	25,926	40,652	41,166
Total net assets	\$ 68,888	\$ 59,309	\$ 107,660	\$ 105,117	\$ 176,548	\$ 164,426

An additional portion of the City's net assets (7 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net assets (\$40,651,701) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the governmental and business-type activities as a whole, as well as for its separate governmental and business-type funds. The same situation held true for the prior fiscal year.

The government's total net assets increased by \$12,131,854 during the fiscal year. Governmental activities accounted for \$9,589,153 of this increase, while business-type activities accounted for \$2,542,701. The increases are primarily due to a large reduction in the tax appeal reserve account, which is shown as a liability in government activities.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

City of Midland Changes in Net Assets (in 1,000's of dollars)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 3,757	\$ 3,660	\$ 20,040	\$ 19,937	\$ 23,797	\$ 23,597
Operating grants and contributions	5,225	5,266	-	-	5,225	5,266
Capital grants and contributions	2,594	1,575	1,138	1,682	3,732	3,257
General revenue:					-	-
Property taxes	37,178	30,365	-	-	37,178	30,365
Intergovernmental	3,654	3,655	-	-	3,654	3,655
Investment earnings	1,567	1,223	634	461	2,201	1,684
Transfers and other revenue (expense)	(1,522)	(1,515)	1,784	2,122	262	607
Total revenue	52,453	44,229	23,596	24,202	76,049	68,431
Program Expenses						
General government	3,063	3,924	-	-	3,063	3,924
Public safety	10,988	9,711	-	-	10,988	9,711
Public works	5,075	6,905	-	-	5,075	6,905
Community development	403	728	-	-	403	728
Sanitation	2,088	2,239	-	-	2,088	2,239
Parks and recreation	3,893	4,021	-	-	3,893	4,021
Library	4,407	4,395	-	-	4,407	4,395
Transportation	1,517	1,507	-	-	1,517	1,507
Tax appeal defense	6,452	4,532	-	-	6,452	4,532
Other functions	4,786	4,103	-	-	4,786	4,103
Interest on long-term debt	192	29	-	-	192	29
Water	-	-	8,246	7,361	8,246	7,361
Wastewater	-	-	5,260	4,469	5,260	4,469
Landfill	-	-	3,483	2,507	3,483	2,507
Golf course	-	-	919	984	919	984
Parking system	-	-	154	186	154	186
Real estate rental	-	-	2,991	2,787	2,991	2,787
Total expenses	42,864	42,094	21,053	18,294	63,917	60,388
Change in Net Assets	\$ 9,589	\$ 2,135	\$ 2,543	\$ 5,908	\$ 12,132	\$ 8,043

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

As mentioned above, governmental activities increased the City's net assets by \$9,589,153, due mostly to reducing the tax appeal reserve account, which is shown as a liability in government activities. Through the settlement of one of the three major tax appeals, and the application of decisions by the Michigan Tax Tribunal, the City was able to reduce its reserve by nearly \$9 million. This amount was recognized as property tax revenue on the statement of changes in net assets, and is included as unrestricted net assets, available to reduce future year mileage requirements. At year end, those funds were in cash equivalents in the DDA fund. A more detailed discussion follows:

- Capital grants and contributions revenue increased by \$1,018,676 over last year with the largest areas of increase coming in public works (\$824,503), and parks and recreation (\$150,718). The increase in public works is due to new privately developed subdivisions to supply new streets, sidewalks, and storm sewers. The increase in parks and recreation is due to donations for the new civic arena.
- Property tax revenue increased by \$6,812,782. As discussed later in Note 17 of the notes to the financial statements section of this report, the City is reserving net assets to fund potential unfavorable outcomes in two major tax appeal cases. This reserve is recorded as a long-term liability on the government-wide statements. Accordingly, any tax revenues collected to fund this reserve are recorded as an increase to the liability, rather than as property tax revenue. Conversely, any reductions to the liability are recorded as property tax revenue in the year of the reduction. In 2004, \$5,235,862 of property tax revenue on the governmental funds statement was applied to increase the liability on the government-wide statements. As a result, the property tax revenue shown on the government-wide statements was lower than that which was shown on the governmental fund statement. In 2005, the opposite is true. The liability was reduced by \$8,929,696. Therefore, while the governmental fund statement for 2005 includes \$7,287,446 less in property tax revenues due to a 3.03 mill reduction to the City's total millage, the government-wide statement shows greater property tax revenue than last year due to the reduction of the liability.
- Investment earnings increased by \$344,083 as a result of a slight recovery in the investment market.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

- Certain factors impacted both governmental and business-type activities: the City's workforce includes six collective bargaining units that provide for an average wage increase of 3 percent; health insurance costs increased 17 percent; the City's police and fire pension plan slipped below being its previous "over-funded" status and required approximately \$673,000 of City contributions; and pension costs for all other eligible employees increased by 7.7 percent. Last years' CAFR included a change in the allocation process of Internal Service Funds between governmental and business-type funds. The impact of this change resulted in an increase to governmental expenses of approximately \$1.3 million, with a decrease to business-type expenses by approximately the same. For the 2005 fiscal year, the allocation of the internal service operations for the year was to decrease governmental expenses by \$136,176 and decrease business-type expenses by \$230,419.
- Expenses for governmental activities increased by \$768,896 or 1.8 percent over prior year expenses. General government and public works expenses decreased significantly from last year, substantially due to the allocation change in 2004 as mentioned in the previous bullet. Public safety expenses increased by \$1,276,179, mostly due to increased pension, health insurance, and wage costs. Tax appeal defense expenses increased by \$1,919,502 as a result of the settlement with Dow Corning that provided them with a refund that included \$1,914,997 from the General Fund for prior year taxes.

Business-type Activities

Business-type activities increased the City's net assets by \$2,542,702. Key elements follow:

- Capital grants and contributions decreased by \$544,470 (29 percent). Most of the decrease was due to the completion of golf course improvements in the prior year, which were funded mostly by foundation contributions.
- Program expenses increased from last year by \$2,757,888. A large portion of this increase over 2004 is due to 2004's expenses being reduced by adjustments for the change in internal service (approximately \$1.3 million), and a reduction to landfill depreciation and final closer expense as a result of underestimating cell capacity in prior years. Aside from the effect of these non-reoccurring items, landfill expenses increased by approximately \$350,000 due to additional maintenance costs on previously closed cells and the donation of heavy equipment purchases to the Equipment Revolving Fund; Water Fund maintenance expenses increased by approximately \$270,000; and Wastewater Fund maintenance expenses increased by approximately \$300,000.

Financial Analysis of the Governments Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$56,586,414, a decrease of \$7,142,182 from the prior year. Approximately 21 percent of this total amount (\$11,661,343) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of restricted purposes, with the largest reserve being for tax appeals (\$38,410,155). See Note 17 in the Notes to the Financial Statements section of this report for more information on the tax appeals.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,597,089, or 4 percent of total General Fund expenditures. The fund balance of the City's General Fund decreased by \$6,942,707 during the current fiscal year. This is mainly due to a reduction in the fund balance tax appeal reserve, as discussed elsewhere in this report.

The Major Street Fund and General Construction Fund are also major funds of the City. At the end of the current fiscal year, unreserved fund balances for each of these funds were \$6,962,204 and \$912,267, respectively. The Major Street Fund's net assets increased by \$1,734,314 during the year as a result of accumulated funding for projects that were not completed by fiscal year end. The General Construction Fund's net assets increased by \$442,235 during the year due to the same reason.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Enterprise Funds operations for the current year resulted in an increase to net assets of \$2,312,283. The Water and Wastewater Funds had increases of \$1,627,391 and \$1,387,905, respectively. Both of these funds set their user fees to allow accumulation of reserves for capital investment and debt service. The increase in net assets reflects the result of this process. The Sanitary Landfill Fund had a decrease in net assets of \$209,592. This was a planned reduction to partially consume previously accumulated net assets. The Real Estate Rental Fund had a planned decrease of \$317,005. The Real Estate Rental Fund is comprised mainly of two senior housing facilities. The annual operating plans for these facilities set revenue rates to cover all annual operating costs. They do not provide excess revenue to contribute to a sinking fund for facility replacement. As such, this fund typically shows an annual reduction to net assets in an amount similar to the depreciation expense for that year.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Differences between the original budget and the final budget were minimal. In general, total revenues and transfers in were greater than budgeted, and expenditures and transfers out were less than budgeted. Public safety expenditures were over budget by \$73,011, mostly due to labor contract settlement issues that were different than anticipated when the budget for the year was approved.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$154,570,190 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, systems, machinery and equipment, streets, bridges, and sidewalks. The total increase in the City's investment in capital assets for the current fiscal year was \$13,503,695 (a 9 percent increase for both governmental and business-type activities).

Major capital asset events during the current fiscal year included the following:

- 70 percent of the construction of a new \$10 million Civic Arena
- 90 percent of a \$2.5 million improvement to the storm water collection system
- 90 percent of the construction of a \$.5 million airport terminal building
- \$3.3 million in major and local street improvements
- \$1.9 million in water and wastewater system improvements
- The City's replacement plan of vehicles and equipment continued.

Additional information on the City's capital assets can be found in Note 5 on pages 49 through 52 of this report.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

City of Midland Capital Assets (in 1,000's of dollars)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 3,369	\$ 3,159	\$ 2,317	\$ 2,317	\$ 5,686	\$ 5,476
Construction in progress	14,040	6,885	976	3,559	15,016	10,444
Major and local roads	8,425	3,131	-	-	8,425	3,131
Sidewalks	259	76	-	-	259	76
Buildings and improvements	22,943	21,105	70,441	70,417	93,384	91,522
Land improvements	1,885	1,231	5,543	5,546	7,428	6,777
Water and sewer lines	-	-	71,969	66,473	71,969	66,473
Landfill improvements	-	-	9,798	9,794	9,798	9,794
Library circulation materials	6,576	6,401	-	-	6,576	6,401
Equipment	8,522	8,198	4,715	4,979	13,237	13,177
Vehicles	13,219	12,588	580	597	13,799	13,185
Total	79,238	62,774	166,339	163,682	245,577	226,456
Less accumulated depreciation	(28,418)	(26,255)	(62,589)	(59,134)	(91,007)	(85,389)
	\$ 50,820	\$ 36,519	\$ 103,750	\$ 104,548	\$ 154,570	\$ 141,067

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$30,234,063. Of this amount, \$24,459,063 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt is backed solely by specified revenue sources.

City of Midland Outstanding Debt General Obligation and Revenue Bonds (in 1,000's of dollars)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 6,750	\$ 385	\$ 17,709	\$ 19,466	\$ 24,459	\$ 19,851
Revenue bonds	-	-	5,775	7,110	5,775	7,110
Total	\$ 6,750	\$ 385	\$ 23,484	\$ 26,576	\$ 30,234	\$ 26,961

The City's total bonded debt increased by \$3,273,177 during the fiscal year, reflecting the issuance of \$6.5 million of new debt relating to the construction of the Civic Arena, coupled with timely principal payments.

City of Midland, Michigan

Management's Discussion and Analysis (Continued)

The City maintains an AA rating with Standard and Poor's and an A1 rating with Moody's for the issuance of general obligation debt.

State statutes limit the amount of general obligation debt a government entity may issue to 10 percent of its total assessed valuation. Currently, 10 percent of assessed valuation is approximately \$270 million.

Additional information on the City's long-term debt can be found in Note 9, on pages 55 through 58 of this report.

Economic Factors and Next Year's Budgets and Rates

Positive developments in the major tax appeals have enabled the City to refund approximately \$6.5 million in excess reserves to the citizens. This refund from the fund balance reserved for tax appeals of the General Fund was given to the citizens in the form of a 2.63 negative millage. In total, the City millage rate is decreasing from 9.87 mills at July 2004 to 9.79 mills at July 2005. Note 17 of the Notes to the Financial Statements provides additional information on the tax appeals.

The 2005-2006 budget includes the first year of implementation of a Geographic Information System (GIS). This initiative will impact future expenditures of the General Fund, Wastewater Fund, Water Fund, Local Street Fund, and Major Street Fund. The Wastewater Fund increased its user rates for the 2005-2006 fiscal year in order to fund its portion of GIS, as well as to keep pace with increases in operating costs.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Finance Department at the Midland City Hall, 333 W. Ellsworth Street, Midland, MI 48640. Finance Department staff can be reached at 989-837-3322 or at cityhall@midland-mi.org. Additional information can be obtained at the City's website, www.midland-mi.org.

City of Midland, Michigan

Statement of Net Assets June 30, 2005

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Assets			
Cash and investments (Note 3)	\$ 64,383,486	\$ 12,717,869	\$ 77,101,355
Receivables - Net of allowances for uncollectibles:			
Property taxes	247,534	-	247,534
Trust deeds	1,654,721	-	1,654,721
Accounts and contracts	1,076,097	2,563,788	3,639,885
Special assessments - Short-term	119,056	-	119,056
Accrued interest	262,233	53,829	316,062
Internal balances	(4,265,811)	4,265,811	-
Due from other governments	1,991,342	-	1,991,342
Inventories	1,008,519	417,712	1,426,231
Prepaid items	761,536	-	761,536
Restricted assets (Note 6)	-	4,168,168	4,168,168
Property, plant, and equipment - Net of accumulated depreciation (Note 5)	33,511,355	100,457,377	133,968,732
Property, plant, and equipment not depreciated	17,308,315	3,293,143	20,601,458
Special assessments - Long-term	448,495	-	448,495
Investment in joint venture (Note 1)	268,340	7,530,684	7,799,024
Other property and investments	-	336,027	336,027
Total assets	118,775,218	135,804,408	254,579,626
Liabilities			
Accounts payable	5,907,161	643,789	6,550,950
Accrued salaries and wages	447,426	104,452	551,878
Due to other governments	-	34,512	34,512
Deposits	66,013	60,989	127,002
Deferred revenue (Note 7)	466,884	-	466,884
Payable from restricted assets:			
Accrued interest	-	215,433	215,433
Current portion - Bonds payable (Note 9)	-	2,945,000	2,945,000
Guarantee deposits	-	49,490	49,490
Noncurrent liabilities (Note 9):			
Due within one year	2,315,755	324,727	2,640,482
Due in more than one year	40,683,696	23,766,103	64,449,799
Total liabilities	49,886,935	28,144,495	78,031,430
Net Assets			
Invested in capital assets - Net of related debt	42,571,216	80,266,457	122,837,673
Restricted for:			
Highway and streets	7,746,692	-	7,746,692
Cemetery operations	1,437,821	-	1,437,821
Federal expenditures	1,735,058	-	1,735,058
Debt service	7,984	1,219,000	1,226,984
Capital projects	912,267	-	912,267
Unrestricted	14,477,245	26,174,456	40,651,701
Total net assets	\$ 68,888,283	\$ 107,659,913	\$ 176,548,196

City of Midland, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,062,737	\$ 154,811	\$ 303,664	\$ 286,982
Public safety	10,987,667	849,783	71,228	-
Public works	5,075,325	306,035	3,664,584	1,426,701
Community development	403,039	30,123	219,388	-
Sanitation	2,088,026	158,461	-	-
Parks and recreation	3,893,440	997,876	-	860,000
Library	4,407,303	616,097	240,319	-
Airport	196,857	75,089	-	19,055
Transportation	1,517,410	119,672	726,007	873
Tax appeal defense	6,451,758	-	-	-
Other functions	4,589,005	448,750	-	-
Interest and fiscal agent fees	191,568	-	-	-
Total governmental activities	42,864,135	3,756,697	5,225,190	2,593,611
Business-type activities:				
Water	8,246,334	8,917,874	-	638,838
Wastewater	5,260,262	4,445,604	-	498,717
Landfill	3,482,272	3,159,947	-	-
Golf course	918,631	764,975	-	-
Parking system	154,116	78,444	-	-
Real estate rental	2,991,196	2,673,685	-	-
Total business-type activities	21,052,811	20,040,529	-	1,137,555
Total primary government	\$ 63,916,946	\$ 23,797,226	\$ 5,225,190	\$ 3,731,166
General revenues:				
Property taxes				
Other tax-related revenue				
Intergovernmental				
Investment earnings				
Miscellaneous revenues				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,317,280)	\$ -	\$ (2,317,280)
(10,066,656)	-	(10,066,656)
321,995	-	321,995
(153,528)	-	(153,528)
(1,929,565)	-	(1,929,565)
(2,035,564)	-	(2,035,564)
(3,550,887)	-	(3,550,887)
(102,713)	-	(102,713)
(670,858)	-	(670,858)
(6,451,758)	-	(6,451,758)
(4,140,255)	-	(4,140,255)
(191,568)	-	(191,568)
(31,288,637)	-	(31,288,637)
-	1,310,378	1,310,378
-	(315,941)	(315,941)
-	(322,325)	(322,325)
-	(153,656)	(153,656)
-	(75,672)	(75,672)
-	(317,511)	(317,511)
-	125,273	125,273
(31,288,637)	125,273	(31,163,364)
36,033,726	-	36,033,726
1,144,431	-	1,144,431
3,654,624	-	3,654,624
1,567,420	633,798	2,201,218
308,300	(47,081)	261,219
(1,830,711)	1,830,711	-
40,877,790	2,417,428	43,295,218
9,589,153	2,542,701	12,131,854
59,299,130	105,117,212	164,416,342
\$ 68,888,283	\$ 107,659,913	\$ 176,548,196

City of Midland, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Major Street Fund	General Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 40,815,973	\$ 8,337,640	\$ 2,453,730	\$ 4,543,920	\$ 56,151,263
Receivables - Net of allowances for uncollectibles:					
Property taxes	233,425	-	-	14,109	247,534
Trust deeds	71,838	-	-	1,582,883	1,654,721
Accounts and contracts	377,492	11,874	86,117	598,462	1,073,945
Accrued interest	201,520	22,470	-	20,191	244,181
Due from other funds (Note 4)	1,000,000	-	-	217,315	1,217,315
Due from other governmental units	562,814	555,538	-	205,199	1,323,551
Inventory	178,363	-	-	458,154	636,517
Prepaid items	734,670	-	-	-	734,670
Total assets	\$ 44,176,095	\$ 8,927,522	\$ 2,539,847	\$ 7,640,233	\$ 63,283,697
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 3,374,345	\$ 443,361	\$ 1,627,580	\$ 349,037	\$ 5,794,323
Accrued salaries and wages	373,325	-	-	55,143	428,468
Due to other funds	-	-	-	367,315	367,315
Deposits	40,165	-	-	25,848	66,013
Deferred revenue	-	-	-	41,164	41,164
Total liabilities	3,787,835	443,361	1,627,580	838,507	6,697,283
Fund Balance					
Reserved:					
General Fund:					
Encumbrances	2,036,985	-	-	-	2,036,985
Prepaid items and inventory	913,033	-	-	-	913,033
Trust deeds/installment contracts	71,835	-	-	-	71,835
Tax appeal contingency	36,503,437	-	-	-	36,503,437
Special Revenue Funds:					
Encumbrances	-	29,653	-	295,171	324,824
Trust deeds/installment contracts	-	-	-	1,577,337	1,577,337
Tax appeal contingency	-	1,492,304	-	414,414	1,906,718
Special trust activities	-	-	-	104,740	104,740
Housing activities	-	-	-	774,475	774,475
Permanent Fund - Cemetery activities	-	-	-	1,437,821	1,437,821
Debt Service Fund - Debt service	-	-	-	7,984	7,984
Unreserved:					
Designated for future year expenditures -					
Special Revenue Funds	-	481,270	-	618,421	1,099,691
Undesignated:					
General Fund	862,970	-	-	-	862,970
Special Revenue Funds	-	6,480,934	-	1,571,363	8,052,297
Capital Projects Fund	-	-	912,267	-	912,267
Total fund balance	40,388,260	8,484,161	912,267	6,801,726	56,586,414
Total liabilities and fund balance	\$ 44,176,095	\$ 8,927,522	\$ 2,539,847	\$ 7,640,233	\$ 63,283,697

City of Midland, Michigan

Governmental Funds **Reconciliation of Balance Sheet to the Statement of Net Assets** **Year Ended June 30, 2005**

Fund Balance - Total Governmental Funds \$ 56,586,414

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of capital assets, less accumulated depreciation 43,639,850

Investments in joint ventures are not financial resources and therefore are not reported in the governmental funds 268,340

Internal Service Funds are included as part of governmental activities:

Net assets of all Internal Service Funds	\$ 14,744,926	
Less allocation to business-type activities	(4,265,812)	

Total		10,479,114
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Some of the City's receivables will not be collected soon enough after year end to be available to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds - Due from other governmental units 690,572

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets:

Bonds and notes payable	(6,750,000)	
Capital lease payable	(1,498,454)	
Property tax appeal reserve	(31,171,066)	
Compensated absences	(3,356,487)	

Total long-term liabilities		(42,776,007)
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Net Assets - Governmental Activities **\$ 68,888,283**

City of Midland, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Major Street Fund	General Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 22,873,998	\$ 1,613,809	\$ -	\$ 2,616,223	\$ 27,104,030
Other tax-related revenue	1,144,431	-	-	-	1,144,431
Licenses and permits	628,832	-	-	22,153	650,985
Intergovernmental - Federal	71,228	-	-	385,672	456,900
Intergovernmental - Other	3,654,624	2,856,228	19,055	1,425,340	7,955,247
Charges for services	1,564,170	139,912	71,722	1,183,619	2,959,423
Use and admission charges	793,634	-	-	-	793,634
Investment earnings	1,176,042	154,823	78,270	122,024	1,531,159
Contributions and other revenues	892,768	124,082	1,054,857	724,522	2,796,229
Total revenues	32,799,727	4,888,854	1,223,904	6,479,553	45,392,038
Expenditures					
Current:					
General government	4,240,550	-	-	501,847	4,742,397
Public safety	10,794,036	-	-	-	10,794,036
Public works	2,005,038	1,300,149	-	1,446,014	4,751,201
Community development	-	-	-	532,548	532,548
Sanitation	2,094,429	-	-	-	2,094,429
Parks and recreation	3,726,384	-	-	-	3,726,384
Library	-	-	-	3,541,448	3,541,448
Airport	185,202	-	-	-	185,202
Transportation	-	-	-	1,427,883	1,427,883
Tax appeal defense	6,451,758	-	-	-	6,451,758
Other functions	4,108,730	-	-	-	4,108,730
Capital improvement	261,985	2,332,578	10,689,797	1,279,628	14,563,988
Debt service:					
Principal retirement	-	-	-	135,000	135,000
Interest and fiscal charges	-	-	-	191,568	191,568
Total expenditures	33,868,112	3,632,727	10,689,797	9,055,936	57,246,572
Excess of Revenues Over (Under) Expenditures	(1,068,385)	1,256,127	(9,465,893)	(2,576,383)	(11,854,534)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	215,411	215,411
Bond issuance	-	-	6,435,000	-	6,435,000
Transfers in	23,738	1,219,555	3,802,050	6,282,762	11,328,105
Transfers out	(5,898,060)	(741,368)	(328,922)	(6,297,814)	(13,266,164)
Total other financing sources (uses)	(5,874,322)	478,187	9,908,128	200,359	4,712,352
Net Change in Fund Balances	(6,942,707)	1,734,314	442,235	(2,376,024)	(7,142,182)
Fund Balances - Beginning of year	47,330,967	6,749,847	470,032	9,177,750	63,728,596
Fund Balances - End of year	\$ 40,388,260	\$ 8,484,161	\$ 912,267	\$ 6,801,726	\$ 56,586,414

City of Midland, Michigan

Governmental Funds

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (7,142,182)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciable expense 13,961,317

Internal Service Funds are used by the City to charge the cost of certain activities to individual funds. A portion of net revenue (expense) of the Internal Service Funds is reported with governmental activities 136,176

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. Some of the City's receivables will be collected after year end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds:

Special assessments	\$	22,775	
Due from other governmental units		20,459	
Total deferred revenues			43,234

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Proceeds from issuance of debt		6,500,000	
Principal payments		(288,034)	(6,211,966)

Accrued compensated absences, in most cases, are not recorded in governmental funds. These expenses are recognized when earned in the statement of activities (163,395)

The collection of property taxes to fund a reserve for tax appeals is recorded as revenue in governmental funds. However, this reserve will eventually be paid out, so it is a liability, and the change in this reserve is shown as a reduction to the current year's property tax revenue in arriving at the change in net assets 8,929,696

Investments in joint ventures are not financial resources and therefore are not shown on the fund-based statements 36,273

Change in Net Assets of Governmental Activities **\$ 9,589,153**

City of Midland, Michigan

	Business-type Activities - Enterprise			
			Real Estate	
	Water	Wastewater	Rental	Sanitary Landfill
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 5,311,624	\$ 187,571	\$ 1,548,351	\$ 5,262,360
Investments (Note 3)	-	-	-	-
Receivables - Net of allowances for uncollectibles:				
Accounts and contracts	1,385,751	844,005	16,902	311,622
Special assessments - Current				
Accrued interest	16,286	12,101	6,113	19,126
Due from other funds (Note 4)	-	-	-	9,000
Inventories	417,712	-	-	-
Prepaid items	-	-	-	-
Restricted assets - Current	1,278,410	1,931,514	-	-
Total current assets	8,409,783	2,975,191	1,571,366	5,602,108
Noncurrent assets:				
Special assessments - Long-term	-	-	-	-
Restricted assets - Noncurrent	-	-	-	958,244
Property, plant, and equipment:				
Construction in progress	524,984	436,948	-	14,531
Land and land improvements	48,165	148,722	677,140	10,794,710
Buildings and structures	27,316,205	19,183,735	20,299,208	895,452
Water and sewer lines	32,623,178	39,346,103	-	-
Vehicles	88,479	58,550	-	356,419
Equipment	1,935,091	1,435,434	683,069	416,155
Total property, plant, and equipment	62,536,102	60,609,492	21,659,417	12,477,267
Accumulated depreciation	(30,029,796)	(16,397,191)	(7,091,616)	(7,265,306)
Net property, plant, and equipment	32,506,306	44,212,301	14,567,801	5,211,961
Other assets:				
Investment in joint venture	7,530,684	-	-	-
Other property and investments	227,227	108,800	-	-
Total other assets	7,757,911	108,800	-	-
Total assets	48,674,000	47,296,292	16,139,167	11,772,313

Proprietary Funds
Statement of Net Assets
June 30, 2005

Funds		
Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 61,965	\$ 12,371,871	\$ 8,232,222
345,998	345,998	-
5,508	2,563,788	2,401
		119,056
203	53,829	19,666
-	9,000	150,000
-	417,712	372,003
-	-	25,000
-	3,209,924	-
<u>413,674</u>	<u>18,972,122</u>	<u>8,920,348</u>
-	-	448,495
-	958,244	-
-	976,463	45,000
5,988,830	17,657,567	371,153
2,746,219	70,440,819	2,730,189
-	71,969,281	-
76,716	580,164	12,242,501
<u>245,723</u>	<u>4,715,472</u>	<u>2,912,896</u>
9,057,488	166,339,766	18,301,739
<u>(1,805,338)</u>	<u>(62,589,247)</u>	<u>(11,121,933)</u>
<u>7,252,150</u>	<u>103,750,519</u>	<u>7,179,806</u>
-	7,530,684	-
-	336,027	-
-	7,866,711	-
7,665,824	131,547,596	16,548,649

City of Midland, Michigan

	Business-type Activities - Enterprise			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Liabilities				
Current liabilities:				
Accounts payable	\$ 220,937	\$ 30,465	\$ 40,498	\$ 38,329
Accrued salaries and wages	49,381	26,440	16,113	12,518
Accrued compensated absences	148,916	96,377	42,154	37,280
Due to other funds	-	-	9,000	-
Due to other governments	34,512	-	-	-
Deposits	(67)	-	61,056	-
Payable from restricted assets:				
Accrued interest	73,920	141,513	-	-
Current portion - Bonds payable	1,155,000	1,790,000	-	-
Total current liabilities	<u>1,682,599</u>	<u>2,084,795</u>	<u>168,821</u>	<u>88,127</u>
Noncurrent liabilities:				
Payable from restricted assets - Guarantee deposits	49,490	-	-	-
Bonds payable - Long-term	4,620,000	15,919,063	-	-
Accrued compensated absences	191,935	60,826	40,702	44,577
Deferred special assessments	-	-	-	-
Accrued landfill closure and postclosure care cost	-	-	-	2,889,000
Total noncurrent liabilities	<u>4,861,425</u>	<u>15,979,889</u>	<u>40,702</u>	<u>2,933,577</u>
Total liabilities	<u>6,544,024</u>	<u>18,064,684</u>	<u>209,523</u>	<u>3,021,704</u>
Net Assets				
Investment in capital assets - Net of related debt	26,731,306	26,503,238	14,567,801	5,211,961
Restricted for:				
Revenue bond retirement	1,219,000	-	-	-
Joint venture operations	7,530,684	-	-	-
Emergency repair	25,000	-	-	-
Unrestricted	<u>6,623,986</u>	<u>2,728,370</u>	<u>1,361,843</u>	<u>3,538,648</u>
Total net assets	<u>\$ 42,129,976</u>	<u>\$ 29,231,608</u>	<u>\$ 15,929,644</u>	<u>\$ 8,750,609</u>

Total net assets of the Internal Service Funds allocable to the Business-type Activities

Total

Proprietary Funds
Statement of Net Assets (Continued)
June 30, 2005

Funds		
Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ 313,559	\$ 643,788	\$ 102,941
-	104,452	28,843
-	324,727	89,079
-	9,000	1,000,000
-	34,512	-
-	60,989	-
-	215,433	-
-	2,945,000	-
<u>313,559</u>	<u>4,337,901</u>	<u>1,220,863</u>
-	49,490	-
-	20,539,063	-
-	338,040	134,365
-	-	448,495
-	2,889,000	-
-	23,815,593	582,860
<u>313,559</u>	<u>28,153,494</u>	<u>1,803,723</u>
7,252,150	80,266,456	7,179,806
-	1,219,000	-
-	7,530,684	-
-	25,000	-
<u>100,115</u>	<u>14,352,962</u>	<u>7,565,120</u>
\$ 7,352,265	103,394,102	\$ 14,744,926
	<u>4,265,811</u>	
	<u>\$ 107,659,913</u>	

City of Midland, Michigan

	Business-type Activities - Enterprise			
	Water	Wastewater	Real Estate Rental	Sanitary Landfill
Operating Revenue				
Service charges	\$ -	\$ 4,271,674	\$ -	\$ -
Water sales	7,220,106	-	-	-
Use and admission charges	-	-	-	3,120,726
Rentals	375,814	-	2,182,545	-
Fines and forfeits	61,823	59,271	-	1,061
Total operating revenue	<u>7,657,743</u>	<u>4,330,945</u>	<u>2,182,545</u>	<u>3,121,787</u>
Operating Expenses				
Operations	3,480,308	966,934	1,997,522	2,697,045
Administration	1,024,232	637,329	-	-
Maintenance	2,256,230	1,431,359	-	-
Depreciation	1,137,092	1,422,909	443,083	674,335
Total operating expenses	<u>7,897,862</u>	<u>4,458,531</u>	<u>2,440,605</u>	<u>3,371,380</u>
Net Operating Loss	<u>(240,119)</u>	<u>(127,586)</u>	<u>(258,060)</u>	<u>(249,593)</u>
Nonoperating Revenue (Expenses)				
Investment earnings	115,713	39,218	32,529	126,161
Gain from investment in joint venture	284,786	-	-	-
Contractual revenues	1,135,813	-	-	-
Profit (loss) on disposition of assets	(5,158)	(34,253)	(7,332)	(2,216)
Sale of meals - Revenue	-	-	419,982	-
Sale of meals - Expense	-	-	(561,079)	-
Miscellaneous revenue	467,518	114,659	76,494	38,160
Interest expense	(377,916)	(802,308)	-	-
Miscellaneous expenses	(399,325)	(94,012)	(19,539)	(122,104)
Total nonoperating revenue (expenses)	<u>1,221,431</u>	<u>(776,696)</u>	<u>(58,945)</u>	<u>40,001</u>
Income (Loss) - Before capital contributions and operating transfers	<u>981,312</u>	<u>(904,282)</u>	<u>(317,005)</u>	<u>(209,592)</u>
Capital Contributions	<u>638,838</u>	<u>498,717</u>	<u>-</u>	<u>-</u>
Transfers In	<u>7,241</u>	<u>1,793,470</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>1,627,391</u>	<u>1,387,905</u>	<u>(317,005)</u>	<u>(209,592)</u>
Net Assets - Beginning of year	<u>40,502,585</u>	<u>27,843,703</u>	<u>16,246,649</u>	<u>8,960,201</u>
Net Assets - End of year	<u><u>\$ 42,129,976</u></u>	<u><u>\$ 29,231,608</u></u>	<u><u>\$ 15,929,644</u></u>	<u><u>\$ 8,750,609</u></u>

Change in Net Assets

Some amounts reported for business-type activities in the statement of activities are different because net revenue (expense) of certain internal services is reported with business-type activities

Change in net assets of business-type activities

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended June 30, 2005

Funds		
Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$ -	\$ 4,271,674	\$ 2,197,131
-	7,220,106	-
843,179	3,963,905	-
-	2,558,359	3,024,785
-	122,155	-
<u>843,179</u>	<u>18,136,199</u>	<u>5,221,916</u>
837,210	9,979,019	4,022,757
-	1,661,561	-
69,884	3,757,473	-
<u>174,674</u>	<u>3,852,093</u>	<u>1,285,277</u>
<u>1,081,768</u>	<u>19,250,146</u>	<u>5,308,034</u>
<u>(238,589)</u>	<u>(1,113,947)</u>	<u>(86,118)</u>
35,391	349,012	102,814
-	284,786	-
-	1,135,813	-
(3,458)	(52,417)	174,509
-	419,982	-
-	(561,079)	-
240	697,071	5,870
-	(1,180,224)	-
-	(634,980)	(199,630)
<u>32,173</u>	<u>457,964</u>	<u>83,563</u>
(206,416)	(655,983)	(2,555)
-	1,137,555	261,801
<u>30,000</u>	<u>1,830,711</u>	<u>107,348</u>
(176,416)	2,312,283	366,594
<u>7,528,681</u>	<u>101,081,819</u>	<u>14,378,332</u>
<u>\$ 7,352,265</u>	<u>\$ 103,394,102</u>	<u>\$ 14,744,926</u>
	\$ 2,312,283	
	<u>230,418</u>	
	<u>\$ 2,542,701</u>	

City of Midland, Michigan

	Water	Wastewater	Real Estate Rental
Cash Flows from Operating Activities			
Receipts from customers	\$ 7,522,349	\$ 4,227,355	\$ 2,669,752
Payment to suppliers	(4,898,888)	(1,741,000)	(1,741,464)
Payment to employees	(2,787,772)	(1,549,387)	(878,796)
Other receipts	467,520	114,659	-
Net cash provided (used) in operating activities	303,209	1,051,627	49,492
Cash Flows from Noncapital Financing Activities -			
Operating transfers in (governmental)	7,241	1,793,470	-
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(1,216,833)	(675,207)	(39,886)
Proceeds from bonds payable	-	58,916	-
Principal payments on bonds, notes and contracts payable	(1,335,000)	(1,760,000)	-
Interest paid	(344,690)	(821,051)	-
Contractual revenues	1,135,813	-	-
Proceeds from sale of capital assets	-	-	-
Net cash used in capital and related financing activities	(1,760,710)	(3,197,342)	(39,886)
Cash Flows from Investing Activities - Investment earnings	110,817	36,036	29,258
Net Increase (Decrease) in Cash and Cash Equivalents	(1,339,443)	(316,209)	38,864
Cash and Cash Equivalents - Beginning of year	7,929,477	2,435,294	1,509,487
Cash and Cash Equivalents - End of year	\$ 6,590,034	\$ 2,119,085	\$ 1,548,351
Noncash Investing Activities - Changes in fair value of investments	\$ -	\$ -	\$ -
Noncash Capital Financing Activities - Developer contributions	\$ 638,838	\$ 498,717	\$ -

**Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2005**

	Sanitary Landfill	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
\$	3,174,039	\$ 845,344	\$ 18,438,839	\$ 5,427,874
	(1,806,510)	(479,777)	(10,667,639)	(2,657,574)
	(696,135)	(400,448)	(6,312,538)	(1,853,749)
	<u>-</u>	<u>241</u>	<u>582,420</u>	<u>5,869</u>
	671,394	(34,640)	2,041,082	922,420
	<u>-</u>	<u>30,000</u>	<u>1,830,711</u>	<u>-</u>
	(33,202)	(4,800)	(1,969,928)	(1,391,488)
	-	-	58,916	-
	-	-	(3,095,000)	-
	-	-	(1,165,741)	(77,223)
	-	-	1,135,813	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>203,112</u>
	(33,202)	(4,800)	(5,035,940)	(1,265,599)
	<u>115,354</u>	<u>5,524</u>	<u>296,989</u>	<u>173,898</u>
	753,546	(3,916)	(867,158)	(169,281)
	<u>5,467,058</u>	<u>65,882</u>	<u>17,407,198</u>	<u>8,401,505</u>
\$	<u>6,220,604</u>	<u>61,966</u>	<u>16,540,040</u>	<u>8,232,224</u>
\$	<u>-</u>	<u>29,759</u>	<u>29,759</u>	<u>-</u>
\$	<u>-</u>	<u>-</u>	<u>1,137,555</u>	<u>261,801</u>

City of Midland, Michigan

	Water	Wastewater	Real Estate Rental
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (240,119)	\$ (127,578)	\$ (258,061)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	1,137,092	1,422,909	443,083
Miscellaneous cash received (paid)	68,195	(73,741)	(84,139)
Changes in operating assets and liabilities:			
Accounts receivable	(133,589)	(103,590)	(8,420)
Due from other funds	8,296	-	-
Inventory	(51,605)	-	-
Accounts payable	(508,444)	(59,493)	(42,603)
Accrued salaries and wages	17,580	6,952	6,035
Customer deposits received	(22,532)	-	-
Customer deposits returned	20,727	-	(14,800)
Accrued landfill closure costs	-	-	13,250
Compensated absences, death benefits, and worker's compensation	7,608	(13,832)	(4,853)
Net cash provided by (used in) operating activities	<u>\$ 303,209</u>	<u>\$ 1,051,627</u>	<u>\$ 49,492</u>

Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended June 30, 2005

<u>Sanitary Landfill</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
\$ (249,592)	\$ (238,589)	\$ (1,113,939)	\$ 21,233
674,335	174,674	3,852,093	1,285,277
(83,944)	240	(173,389)	(193,761)
14,092	2,165	(229,342)	(1,391)
-	-	8,296	-
-	-	(51,605)	(62,941)
(48,692)	26,869	(632,363)	(117,493)
3,065	-	33,632	10,642
-	-	(22,532)	-
-	-	5,927	-
359,000	-	372,250	-
3,130	-	(7,947)	(19,146)
<u>\$ 671,394</u>	<u>\$ (34,641)</u>	<u>\$ 2,041,081</u>	<u>\$ 922,420</u>

City of Midland, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	Agency Funds	Pension and Other Employee Benefit Trust Funds
Assets		
Cash and cash equivalents	\$ 20,784	\$ 11,790,998
Investments:		
Common stock	-	24,305,877
Preferred stock	-	1,358,569
Bonds	-	8,831,396
U.S. government securities	-	1,832,973
Mortgage and asset-backed securities	-	2,725,401
International funds	-	6,110,441
Receivables - Net of allowances for uncollectibles:		
Accounts and contracts	-	1,986
Accrued interest receivable	50	123,389
Property taxes	36,005	-
	<u>56,839</u>	<u>\$ 57,081,030</u>
Liabilities		
Accounts payable	2,087	\$ -
Due to other governmental units	18,746	-
Deferred revenue	36,006	-
	<u>56,839</u>	<u>-</u>
Net Assets		
Held in trust for pension benefits	-	46,716,132
Held in trust for postemployment health benefits	-	10,364,898
	<u>\$ -</u>	<u>\$ 57,081,030</u>

City of Midland, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	Pension and Other Employee Benefit Trust Fund
Additions	
Contributions:	
Employer	\$ 1,869,711
Employee	418,836
Total contributions	2,288,547
Investment income:	
Net appreciation in fair value of assets	1,705,313
Interest	730,634
Dividends	426,052
Total investment income	2,861,999
Less investment expenses	(312,842)
Net investment income	2,549,157
Total additions	4,837,704
Deductions - Benefit payments	2,593,515
Change in Net Assets	2,244,189
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	54,836,841
End of year	\$ 57,081,030

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Midland, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Midland, Michigan:

Reporting Entity

The City is a municipal corporation governed by an elected five-member City Council (the "Council"), which biannually selects one of its members to serve as mayor. The City operates under a Council-Manager form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations, and data from these units are therefore combined with data from the primary government.

Blended Component Unit

Midland Downtown Development Authority - The Midland Downtown Development Authority (MDDA) was established in 1987 for the purpose of maintaining and renovating the downtown Midland area. The MDDA is administered by a 13-person board, which is appointed by the City Council. Funding for the MDDA is provided by a two-mill levy on property within the district and by tax increment financing. All projects initiated by the MDDA are considered public improvements to the City's infrastructure, parks, or parking facilities. Since the MDDA is used exclusively as a financing source for City facilities, it has been blended into the financial statements of the City as a Special Revenue Fund. The MDDA has a June 30 year end.

Joint Ventures

Saginaw-Midland Municipal Water Supply Corporation - The Saginaw-Midland Municipal Water Supply Corporation (SMMWSC), located approximately eight miles east of the city of Midland, is an authority incorporated by the cities of Midland and Saginaw, Michigan, under Act 233, Public Acts of Michigan, 1955, as amended. The SMMWSC is administered by a six-member board of trustees, each community appointing three members, and is empowered to prepare, adopt, and submit to the legislative bodies of each municipality an annual budget covering estimated revenues, proposed expenditures, and the necessary funds required from each municipality for the next fiscal year.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Funding for the acquisition of property and for the development and improvement of the water supply system is provided by sale of SMMWSC negotiable bonds secured by the full faith and credit of each municipality in a ratio based upon predetermined capacity reserves; 20/43rds for the City of Midland and 23/43rds for the City of Saginaw. Funding for operations is provided by sale of water to the two communities on a consumption basis. The City's equity in the SMMWSC is accounted for in the Water Fund, which is included in the business-type activities column of the statement of net assets.

A summary of the financial information for the year ended June 30, 2005 follows:

Total assets	\$ 3,800,415
Total liabilities	22,231,493
Equity - City of Midland	7,334,383
Equity - City of Saginaw	8,434,539
Total revenues	4,765,607
Total expenses	4,153,312
Net income	612,289

At June 30, 2005, total outstanding bonded debt of the SMMWSC was \$22,000,000. The City was obligated for \$10,232,559 of this total.

Midland City/County Joint Building Authority - The City's ownership interest in the Midland City/County Joint Building Authority is accounted for in the governmental activities column of the statement of net assets. The Authority was created as a financing vehicle for the Midland Law Enforcement Center. The Law Enforcement Center is leased from the Joint Building Authority (JBA) by the City of Midland Police Department, the Midland County Sheriff Department, and the Midland County Central Dispatch Authority. The JBA is governed by a three-person board with the City and County each appointing one member and with the third member being mutually appointed. Additional information concerning the Joint Building Authority and its lease with the City is detailed in Note 8 - Leases.

General - Complete financial statements, which are audited for the Saginaw-Midland Municipal Water Supply Corporation and the Midland City/County Joint Building Authority, are available from the City Clerk's Office.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating parties in the near future for any of the above organizations.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay current period liabilities.

For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses, interest, and special assessments are susceptible to accrual. Sales and motor fuel taxes collected and held by the State at fiscal year end on behalf of the City are also recognized as revenue of the current fiscal period. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Street Fund accounts for state-shared revenues relating to construction activities, repairs, and maintenance of all major streets and trunklines.
- The Capital Projects General Construction Fund accounts for construction activities related to non-street projects.

The City reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the City's water supply system, capital additions, and retirement of bonds.
- The Wastewater Fund accounts for the operation and maintenance of the City's sewage disposal system, capital additions and improvements, and retirement of bonds.
- The Landfill Fund accounts for the operation and maintenance of the City's trash and garbage disposal system.

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Real Estate Rental Fund accounts for the operation and maintenance of the City's various senior housing rental properties.

Additionally, the City reports the following Internal Service Funds:

- The Data Processing Fund accounts for the operations of the City's Information Services Department.
- The Equipment Revolving Fund accounts for the rental charges of City-owned equipment to other City departments.
- The Service Center Rental Fund accounts for the operations of the City's Service Center building.
- The Insurance Claims Fund accounts for insurance expenses resulting from property and liability claims.
- The Special Assessment Revolving Fund accounts for the funding of the City's special assessment projects.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Because these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. The Police and Fire Retirement Fund and the Post-Employment Health Care Plan Fund are fiduciary funds of the City. The City's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets.

Agency Funds are used to account for those held by the City as a custodian for other governments or organizations. Agency Funds have only assets and liabilities representing the parties that are entitled to the assets. The Tax Collection Fund and the Shopping Area Redevelopment Authority Fund are accounted for as Agency Funds.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Note 1 - Summary of Significant Accounting Policies (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. The portion intended to recover the cost of infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City, as well as for its component unit, are reported at fair value.

Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payables" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance at June 30, 2005 is equal to 100 percent of outstanding property taxes over four years old plus 4 percent of outstanding property taxes less than five years old.

Properties are assessed annually as of December 31, and property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with a final collection date of February 28 before they are added to the county tax roll. The City also bills and collects an amount each December, primarily for schools, county, and college. Also included in the December billing is a tax administration fee, which is revenue to the City. The December billing is due on February 14 with a final collection date of February 28. Penalties and interest are assessed on payments received after the due date.

The 2004 taxable valuation of the City totaled \$2,425,123,300, on which ad valorem taxes levied consisted of 9.23 mills for the City's operating purposes and debt levies equaling .64 mills. The ad valorem taxes levied are recognized in the respective General, Special Revenue, and Water and Sewer Fund financial statements as taxes receivable - current or as tax revenue.

Inventories and Prepaid Items - Inventories are valued at cost on an average cost method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets - Certain resources set aside for debt service on the City's Enterprise Fund revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Additionally, certain resources set aside for closure and postclosure costs for the enterprise landfill operation are classified as restricted assets because their use is limited by applicable State regulations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Projects with total costs of less than \$10,000 are considered repair and are expensed in the year incurred. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Land improvements	20 years
Infrastructure	10-50 years
Vehicles	3-10 years
Office equipment	10 years
Computer equipment	4 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is fully vested when earned, and sick pay is conditionally vested upon completion of 10 years of service. Upon retirement, employees are paid accumulated vacation and one-half of unused sick days at their hourly rate as of their retirement date.

All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for the entire amount, current and long-term, is accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection on building construction renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 follows:

Shortfall at July 1, 2004		\$	(232,569)
Current year building permit revenue			353,733
Related expenses:			
Direct costs	\$	377,152	
Estimated indirect costs		<u>22,629</u>	
Total construction code expenses			<u>399,781</u>
Cumulative shortfall at June 30, 2005		\$	<u>(278,617)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The City Council has designated nine financial institutions for the deposit of Local Unit funds. The investment policy adopted by the City in accordance with Public Act 20 of 1943 (as amended) authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities, certificates of deposit, commercial paper (meeting certain rating and maturity requirements), repurchase agreements, investment pools, bankers' acceptances of U.S. banks, and mutual funds. Repurchase agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Repurchase Agreement. The treasurer may invest in investment pools organized under the Surplus Funds Investment Pool Act of 1982 and under the Urban Cooperation Act of 1967.

For mutual funds, the treasurer may invest in funds registered under the Investment Company Act of 1940. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share and investment vehicles that are legal for direct investment by a public corporation.

The above-mentioned City investment policy applies to all financial assets of the City except for its Post Retirement Health Care Fund and the Police and Fire Retirement System Fund, which are organized and administered separately. Investments are made pursuant to provisions of the Public Employee Retirement System Investment Act of 1965. Michigan Public Act 314 of 1965 and Michigan Public Act 149 of 1999, as amended, authorize investments in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$67,620,089 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits its funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Commercial paper	\$ 8,684,912	0.318
Government bonds	10,905,108	1.634
Asset and mortgage-backed securities	2,380,401	18.893
Corporate bonds	67,089	15.259
International bonds	1,052,822	16.157

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Organization
Interlocal Agreement Fund	\$ 224,394	Not Rated	N/A
Bank Investment Pooled Funds	2,054,944	Not Rated	N/A
Commercial paper	8,684,912	AI	S & P
Government bonds	284,571	AAA	S & P
Government bonds	105,406	AA-	S & P
Government bonds	8,146,671	AI	S & P
Money market funds	1,448,115	AAA	S & P
Money market funds	2,841,270	Not Rated	N/A
Mutual funds	1,395,905	Not Rated	N/A
Asset and mortgage-backed securities	2,380,401	AAA	S & P
Corporate bonds	133,657	AAA	S & P
Corporate bonds	462,607	AA-	S & P
Corporate bonds	830,030	A+	S & P
Corporate bonds	815,014	A	S & P
Corporate bonds	951,306	A-	S & P
Corporate bonds	1,388,431	BBB+	S & P
Corporate bonds	1,266,108	BBB	S & P
Corporate bonds	1,089,974	BBB-	S & P
Corporate bonds	734,163	BB+	S & P
Corporate bonds	179,438	BB-	S & P
Corporate bonds	216,363	Not Rated	N/A
International bonds	164,638	A+	S & P
International bonds	34,472	BBB+	S & P
International bonds	467,650	BBB	S & P
International bonds	386,063	BBB-	S & P

City of Midland, Michigan

Note 4 - Interfund Transfers, Receivables, and Payables

Interfund transfers reported in the fund statements for the year ended June 30, 2005 were as follows:

Transfers in:	Transfers Out				
	General Fund	Major Street Fund	Local Street Fund	Storm Water Mgmt. Fund	Downtown Develop. Auth. Fund
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Major Street Fund	47,150	-	-	-	1,172,405
Local Street Fund	-	669,000	-	-	-
Storm Water Mgmt. Fund	1,400,000	72,368	140,859	-	-
Transportation Fund	611,772	-	-	-	-
Grace A. Dow Library Fund	2,851,779	-	-	-	-
Debt Fund	193,652	-	-	-	155,414
Capital Projects Fund	793,707	-	59,048	2,531,890	-
Water Fund	-	-	-	-	-
Wastewater Fund	-	-	-	-	-
Parking Fund	-	-	-	-	30,000
Special Assessment Rev.	-	-	-	-	-
Total	<u>\$ 5,898,060</u>	<u>\$ 741,368</u>	<u>\$ 199,907</u>	<u>\$ 2,531,890</u>	<u>\$ 1,357,819</u>

The transfer from the General Fund to the Storm Water Management Fund was the second year of a two-year tax levy to fund a \$2.6 million project. The transfer from the General Fund to the Grace A. Dow Memorial Library Fund represents the use of unrestricted resources to finance that program, in accordance with budgetary authorizations. The transfer from the General Fund to the Capital Projects Fund represents funding of construction projects from unrestricted resources, in accordance with budgetary authorizations. The transfer from the Major Street Fund to the Local Street Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfer from the Storm Water Management Fund to the Capital Projects Fund represents funding of a construction project in accordance with budgetary authorizations. The transfer from the Downtown Development Authority Fund to the Major Street Fund was for road, sidewalk, and streetscape improvements to a major street. The transfer from the Debt Fund to the Wastewater Fund is necessary to transfer an additional millage for debt retirement to the Wastewater Fund, which is the fund that accounts for the related debt.

Notes to Financial Statements
June 30, 2005

Transfers Out				Transfers In
Special Activities Fund	Debt Fund	Capital Projects Fund	Total	
\$ -	\$ -	\$ 23,738	\$ 23,738	General Fund
-	-	-	1,219,555	Major Street Fund
-	-	-	669,000	Local Street Fund
-	-	17,851	1,631,078	Storm Water Mgmt Fund
-	-	-	611,772	Transportation Fund
-	-	-	2,851,779	Downtown Dev Auth Fund
-	-	170,067	519,133	Debt Fund
417,406	-	-	3,802,051	Capital Projects Fund
-	-	7,241	7,241	Water Fund
-	1,790,793	2,677	1,793,470	Wastewater Fund
-	-	-	30,000	Parking Fund
-	-	107,347	107,347	Special Assessment Rev
<u>\$ 417,406</u>	<u>\$ 1,790,793</u>	<u>\$ 328,921</u>	<u>\$ 13,266,164</u>	Total

The composition of interfund balances as of June 30, 2005 was as follows:

Receivable Fund	Payable Fund	Amount
General	Special Assessment Revolving	\$ 1,000,000
Special Assessment Revolving	Midland Housing	150,000
Community Development Block Grant	Midland Housing	217,315
Landfill	Real Estate Rental	9,000
Total		<u>\$ 1,376,315</u>

The balance owing from the Special Assessment Revolving Fund to the General Fund represents a return of General Fund monies that were used to initiate the Special Assessment Revolving Fund.

The balance owing from the Midland Housing Fund to the Community Development Block Grant (CDBG) Fund represents remaining balances on mortgages subsidized by the CDBG Fund. The remaining two resulted from loans made for working capital purposes.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not depreciated:				
Land	\$ 3,159,011	\$ 209,543	\$ -	\$ 3,368,554
Construction in progress	6,884,557	14,175,293	7,120,089	13,939,761
Total capital assets not depreciated	10,043,568	14,384,836	7,120,089	17,308,315
Capital assets being depreciated:				
Major and local roads	3,131,135	5,421,579	28,000	8,524,714
Sidewalks	75,936	183,270	-	259,206
Buildings	21,105,308	1,839,105	1,413	22,943,000
Land improvements	1,231,328	653,941	-	1,885,269
Library circulation materials	6,401,005	587,731	412,915	6,575,821
Equipment	8,198,142	500,295	176,317	8,522,120
Vehicles	12,587,884	1,548,512	917,370	13,219,026
Total capital assets being depreciated	52,730,738	10,734,433	1,536,015	61,929,156
Total capital assets before depreciation	62,774,306	25,119,269	8,656,104	79,237,471
Less accumulated depreciation:				
Major and local roads	72,032	271,764	1,400	342,396
Sidewalks	1,266	7,797	-	9,063
Buildings	8,353,156	443,288	785	8,795,659
Land improvements	169,028	35,502	-	204,530
Library circulation materials	4,386,203	1,297,683	412,915	5,270,971
Furniture, fixtures, and equipment	6,598,239	395,484	163,705	6,830,018
Vehicles	6,675,440	1,189,091	899,367	6,965,164
Subtotal	26,255,364	3,640,609	1,478,172	28,417,801
Net capital assets being depreciated	26,475,374	7,093,824	57,843	33,511,355
Net governmental activities capital assets	\$ 36,518,942	\$ 21,478,660	\$ 7,177,932	\$ 50,819,670

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,316,680	\$ -	\$ -	\$ 2,316,680
Construction in progress	3,559,556	1,974,902	4,557,995	976,463
Total capital assets not being depreciated	5,876,236	1,974,902	4,557,995	3,293,143
Capital assets being depreciated:				
Water and sewer lines	66,472,837	5,524,012	27,568	71,969,281
Buildings and building improvements	70,416,670	37,205	13,056	70,440,819
Land improvements	5,545,854	4,219	7,277	5,542,796
Landfill improvements	9,794,093	3,998	-	9,798,091
Equipment	4,978,596	126,309	389,435	4,715,470
Vehicles	597,448	4,800	22,084	580,164
Total capital assets being depreciated	157,805,498	5,700,543	459,420	163,046,621
Less accumulated depreciation:				
Water and sewer lines	22,081,276	1,423,106	1,849	23,502,533
Buildings and building improvements	26,257,342	1,416,048	6,389	27,667,001
Land improvements	913,928	111,765	4,418	1,021,275
Landfill improvements	6,084,043	583,800	-	6,667,843
Equipment	3,451,915	275,055	372,264	3,354,706
Vehicles	345,677	42,319	12,110	375,886
Total accumulated depreciation	59,134,181	3,852,093	397,030	62,589,244
Net capital assets being depreciated	98,671,317	1,848,450	62,390	100,457,377
Net business-type activities capital assets	\$ 104,547,553	\$ 3,823,352	\$ 4,620,385	\$ 103,750,520

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense charged to programs of the government follows:

Governmental activities:

General government	\$ 438,900
Public safety	260,098
Public works	776,736
Sanitation	87,416
Parks and recreation	328,272
Library	1,557,584
Airport	32,455
Transportation	149,420
Other functions	<u>9,728</u>

Total governmental activities	<u>\$ 3,640,609</u>
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Business-type activities:

Water	\$ 1,137,092
Wastewater	1,422,909
Landfill	674,335
Golf course	136,291
Parking system	38,383
Real estate rental	<u>443,083</u>

Total business-type activities	<u>\$ 3,852,093</u>
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City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects as of June 30, 2005. The projects include streets, water and wastewater system improvements, landfill improvements, and park improvements. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment	Total Commitment
Airport projects	\$ 412,980	\$ 9,688	\$ 422,668
Landfill projects	-	38,208	38,208
Parks and recreation projects	6,886,149	1,638,275	8,524,424
Sewer projects	181,087	29,174	210,261
Sidewalk projects	106,688	14,072	120,760
Storm sewer projects	2,150,290	176,998	2,327,288
Street projects	1,983,330	1,362,139	3,345,469
Water system projects	269,616	330,709	600,325
Total	<u>\$ 11,990,140</u>	<u>\$ 3,599,263</u>	<u>\$ 15,589,403</u>

Infrastructure assets have not been retroactively recorded, and will be within four years, as allowed under GASB 34.

Note 6 - Restricted Assets

Enterprise Funds - Cash and cash equivalents are restricted within the Water and Wastewater Funds for future debt service obligations and guaranteed deposits, in the amounts of \$1,278,410 and \$1,931,514, respectively. Within each of these funds, an offsetting liability "payable from restricted assets" designates the separation of these assets from unreserved assets. In addition, the Landfill Fund has \$958,244 of restricted assets that are for closure and postclosure costs.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2005, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments not yet due - Internal Service Fund	\$ -	\$ 448,495
Grant money drawn down in excess of expenses - CDBG Fund	-	17,087
Grant money awaiting final program audit and redistribution - Transportation Fund	<u>22,775</u>	<u>1,302</u>
Total deferred/unearned for governmental funds	<u>\$ 22,775</u>	<u>\$ 466,884</u>

Note 8 - Leases

Operating Leases

The City leases its police administration facility and landfill equipment under non-cancelable operating leases. Total costs for such leases were \$390,126 for the year ended June 30, 2005. According to the terms of its lease with the Midland City/County Joint Building Authority, the City's obligation for operating leases amounts to 64.8 percent of total operating expenses of the police administration facility.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Leases (Continued)

The future minimum lease payments for these leases, including estimates of obligations under the police administration facility lease areas, are as follows:

Years Ending June 30	Amount
2006	\$ 418,773
2007	266,408
2008	236,943
2009	205,248
2010	211,405
2011-2015	<u>1,156,045</u>
Total	<u>\$ 2,494,822</u>

Capital Leases

The City has entered into a lease agreement with the Midland City/County Joint Building Authority as lessee for financing the construction of police administration facilities. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The total cost of this lease was \$202,583 for the year ended June 30, 2005. Payments under this lease agreement for the year ended June 30, 2005 totaled \$202,583, including \$49,549 of interest charges.

The future minimum lease obligation and net present value as of June 30, 2005 are as follows:

Years Ending June 30	Amount
2006	\$ 212,899
2007	206,200
2008	215,495
2009	207,530
2010	215,703
2011-2013	<u>651,083</u>
Total minimum lease payments	1,708,910
Less amount representing interest	<u>210,456</u>
Present value of minimum lease payments	<u>\$ 1,498,454</u>

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds, which are direct obligations and pledge the full faith and credit of the City, have been issued for both governmental and business-type activities. Revenue bonds involve a pledge of specific income derived from the acquired or constructed asset to pay debt service and have been issued for business-type activities.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
<u>General obligation bonds</u>							
1990 Downtown Development Amount of issue: \$660,000 Maturing through: December 2004	6.65%	\$85,000	\$ 85,000	\$ -	\$ (85,000)	\$ -	\$ -
1992 Downtown Development Amount of issue: \$600,000 Maturing through: September 2007	5.65% - 6.05%	\$50,000 - \$100,000	300,000	-	(50,000)	250,000	50,000
2004 Civic Arena Amount of issue: \$6,500,000 Maturing through: May 2030	2.50% - 4.75%	\$135,000 - \$490,000	-	6,500,000	-	6,500,000	445,000
Capital lease (Note 8)			1,651,488	-	(153,034)	1,498,454	212,899
Total bond and capital lease			2,036,488	6,500,000	(288,034)	8,248,454	707,899
<u>Other long-term obligations</u>							
Compensated absences			3,435,689	170,180	(25,938)	3,579,931	1,607,856
Property tax appeals contingency reserve refunds (Note 17)			40,100,762	-	(8,929,696)	31,171,066	-
Total other long-term obligations			43,536,451	170,180	(8,955,634)	34,750,997	1,607,856
Total governmental activities			45,572,939	6,670,180	(9,243,668)	42,999,451	2,315,755

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
<u>General obligation bonds</u>							
1989 Sewer Construction: Amount of issue: \$900,000 Maturing through: October 2005	6.00%	\$400,000	\$ 800,000	\$ -	\$ (400,000)	\$ 400,000	\$ 400,000
1990 Sewer Construction: Amount of issue - \$3,400,000 Maturing through: October 2005	4.75%	\$725,000	1,450,000	-	(725,000)	725,000	725,000
2001 Sewer Construction: Amount of issue: \$13,600,000 Maturing through: May 2021	4.50% - 5.25%	\$375,000 - \$1,100,000	12,650,000	-	(425,000)	12,225,000	450,000
2001 Sewer Construction - State Revolving Fund: Amount of issue: \$5,130,000 Borrowed as of 6/30/03: \$4,688,961 Maturing through: April 2022	2.50%	\$205,000 - \$320,000	4,565,886	3,177	(210,000)	4,359,063	215,000
<u>Revenue bonds</u>							
2000 Water Rev Refunding: Amount of issue: \$12,190,000 Maturing through: April 2010	4.80%- 5.30%	\$1,155,000 - 1,390,000	7,110,000	-	(1,335,000)	5,775,000	1,155,000
Total bonds obligations			26,575,886	3,177	(3,095,000)	23,484,063	2,945,000
<u>Other long-term obligations</u>							
Compensated absences			673,114	20,739	(31,086)	662,767	324,727
Landfill closure and postclosure (Note 10)			2,530,000	359,000	-	2,889,000	-
Total other long-term obligations			3,203,114	379,739	(31,086)	3,551,767	324,727
Less current portion payable from restricted assets (Note 6)			3,095,000	-	(150,000)	2,945,000	2,945,000
Total business-type activities			26,684,000	382,916	(2,976,086)	24,090,830	324,727
Total governmental and business-type activities			\$ 72,256,939	\$ 7,053,096	\$ (12,219,754)	\$ 67,090,281	\$ 2,640,482

Note 9 - Long-term Debt (Continued)

The 1990 and 1992 Downtown Development Bonds were issued pursuant to a tax increment financing plan and development plan for the Midland Downtown Development Area under authority of Act 197, Public Act of Michigan, 1975, as amended. Proceeds of the 1990 bonds were used to finance a portion of the construction cost of a downtown parking structure, as described in the plan and located in the Development Area. The 1992 bonds were used to finance a portion of the Downtown Streetscape Project. The bonds are payable from tax increment revenues pursuant to the plan.

The 1989 and 1990 general obligation sewer construction bonds were approved by the voters of the City in a general election held on November 3, 1987. The City Council has passed a resolution to levy a millage to pay approximately 80 percent of the principal and interest cost of these bonds. The remaining 20 percent of the obligation is to be repaid by fees from the users of the municipal sanitary sewage collection and treatment system. The proceeds have been used for the construction of sewer facilities capitalized in the Wastewater Fund or for the construction of the City's storm sewer separation project.

The full faith and credit and the unlimited taxing power of the City are also pledged for payment of principal and interest on the 1993 Sewer Refunding Bonds, the proceeds of which were used to redeem certain portions of the 1989 and 1990 Sewer Construction Bonds to take advantage of lower interest rates.

The 2001 Sewer Construction Bonds were approved by the voters in a general election held on February 22, 2000. The City Council has approved a resolution to levy a millage to pay approximately 60 percent of the principal and interest cost of these bonds. The 40 percent balance of the obligation is to be repaid by fees from the users of the municipal sanitary sewage collection and treatment system. The proceeds are being used for construction of sewer facilities recorded as construction in progress in the Wastewater Fund.

On December 3, 2001, the City Council authorized issuance of general obligation limited tax bonds, series 2001, in the principal sum not to exceed \$5,130,000. The purpose of this issuance is to fund the construction of a storm water retention basin at the wastewater treatment plant. User fees will fund 40 percent of the principal and interest on these bonds, and the remaining 60 percent will be funded by a millage that the City will levy. The full faith and credit and the limited taxing power of the City are pledged for payment of the principal and interest thereon.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Long-term Debt (Continued)

The City has pledged its full faith and credit on the bonded indebtedness of the Saginaw-Midland Municipal Water Supply Corporation, a jointly owned raw water system described in Note 1 - Summary of Significant Accounting Policies.

By statute, the City's general obligation debt is restricted to 10 percent of the equalized value of all property in the City. Certain obligations, such as water revenue refunding bonds, are not subject to this limitation. At June 30, 2005, the City's general obligation debt statutory and legal debt limit amounted to \$242,518,860 and the indebtedness subject to the limitation aggregated \$17,600,438.

Annual requirements to pay principal and interest on the long-term bonds and capital leases outstanding at June 30, 2005 are as follows:

Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 707,899	\$ 273,889	\$ 981,788	\$ 2,945,000	\$ 1,031,838	\$ 3,976,838
2007	751,200	263,944	1,015,144	1,850,000	919,244	2,769,244
2008	805,495	253,378	1,058,873	1,910,000	834,620	2,744,620
2009	342,530	241,722	584,252	1,940,000	746,339	2,686,339
2010	360,703	243,158	603,861	1,970,000	655,654	2,625,654
2011-2015	1,481,083	1,102,330	2,583,413	4,910,000	2,439,197	7,349,197
2016-2020	1,035,000	806,122	1,841,122	6,380,000	1,252,821	7,632,821
2021-2025	1,310,000	567,906	1,877,906	1,579,063	73,822	1,652,885
2026-2030	1,454,544	239,898	1,694,442	-	-	-
Total	<u>\$ 8,248,454</u>	<u>\$ 3,992,347</u>	<u>\$ 12,240,801</u>	<u>\$ 23,484,063</u>	<u>\$ 7,953,535</u>	<u>\$ 31,437,598</u>

Note 10 - Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,889,000 reported as landfill closure and postclosure care liability at June 30, 2005 represents the cumulative amount reported to date based on the use of 100 percent of the capacity of Area A (32 acres closed in 1991) and cells 1 through 14 (53 acres closed in 2004), and 25 percent of the estimated capacity of cell 15. The City will recognize the remaining estimated cost of closure and postclosure care of approximately \$664,568 as the remaining capacity of cell 15 is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in current dollars. The City expects to close cell 15 during the fiscal year ending June 2010. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and at June 30, 2005, cash and cash equivalents in the amount of \$958,244 were held for these purposes, reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

The City has also entered into an agreement to provide a letter of credit in favor of the State of Michigan to fulfill certain bonding requirements imposed upon the City, by Michigan law.

Note 11 - Pension Funds

Police and Fire Pension System

Plan Description - The Police and Fire Pension System is a single-employer defined benefit pension plan that is administered by the City of Midland Police and Fire Employees Retirement System. This plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 99 retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits but not yet receiving them, and 92 current active employees. The plan does not issue a separate financial report.

Funding Policy - The obligation to contribute to and maintain the system for those employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 7 percent of gross wages for firefighters and 8 percent of gross wages for all other employees. The City's funding policy provides for biweekly employee contributions and monthly employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Annual Pension Cost - For the year ended June 30, 2005, the City's annual pension cost was \$929,589, which was equal to the City's required and actual contribution. The required employer contributions were determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, (c) additional projected salary increases of up to 5.2 percent per year, attributable to seniority/merit and (d) no postretirement benefit increases other than 5 percent increases for Police Command members with 25 or more years at 5, 10, 15, and 20 years after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The overfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 11 - Pension Funds (Continued)

Reserves - As of June 30, 2005, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 4,725,285
Reserve for employer contributions	13,090,708
Reserve for retired benefit payment	28,900,139

Three-year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
2003	None	100	None
2004	\$ 194,061	100	None
2005	\$ 929,589	100	None

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/02	\$ 55,073,738	\$ 47,343,528	\$ (7,730,210)	116	\$ 5,534,596	(139.7)
12/31/03	51,008,034	49,478,634	(1,529,400)	103	5,582,280	(27.4)
12/31/04	48,603,366	50,436,943	1,833,577	96	5,419,813	33.8

Municipal Employees' Retirement System of Michigan

Plan Description - The City of Midland participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined-benefit pension plan that covers substantially all employees of the City other than police and fire employees. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 11 - Pension Funds (Continued)

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the City's collective bargaining units and requires a contribution from the employees ranging from 0 percent to 5 percent of gross wages. The City's funding policy provides for quarterly employee and employer contributions at actuarially determined rates.

Annual Pension Cost - For the year ended June 30, 2005, the City's annual pension cost of \$2,495,316 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003 using the entry age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, compounded annually, (c) additional projected salary increases of 0 percent to 8.4 percent per year, attributable to seniority/merit and (d) the assumption that benefits will increase after retirement by 2.5 percent annually, non-compounded. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2003	\$ 1,727,255	100	None
2004	2,347,812	100	None
2005	2,495,316	100	None

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 11 - Pension Funds (Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio (Percent)	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/02	\$ 64,917,238	\$ 79,443,565	\$ 14,526,327	82	\$ 11,979,594	121.3
12/31/03	68,149,881	86,011,816	17,861,935	79	12,342,359	144.7
12/31/04	70,567,636	91,177,957	20,610,321	77	12,373,482	166.6

Note 12 - Postemployment Benefits

The City of Midland provides postemployment health care coverage under a traditionally insured plan to all retired employees and their qualified spouses and other dependents, as mandated by collective bargaining agreements. Currently, these costs are funded on a "pay as you go" basis.

In general, retirees are required to contribute up to 40 percent of the cost of coverage until attaining a specified age (ages 46 to 50 for police and fire retirees, depending on bargaining group, and 65 for all other retirees), at which time the full cost of coverage becomes the obligation of the City.

The net cost to the City of providing postemployment health care coverage follows:

Year	Number of Retirees	Amount
2005	301	\$ 3,993,508
2004	284	3,544,232
2003	270	3,131,547

Note 13 - Claims, Litigation, and Other Contingencies

In the normal course of its activities, the City becomes a party in various legal actions. Although some actions have been brought for large amounts, the City has not generally experienced significant losses or cost. City management is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City.

Note 13 - Claims, Litigation, and Other Contingencies (Continued)

The City has received several federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. City management believes such disallowances, if any, will be immaterial.

Note 14 - Enterprise Fund Contractual Revenue

The City supplies large quantities of water to Dow Chemical Company and Dow Corning Corporation under contractual arrangements with each company. Under the Dow Chemical Supplemental Agreement dated March 1, 1979, and Dow Corning Agreement dated July 15, 1985, the companies agree to pay for the variable cost of industrial grade water. In addition, the companies agree to pay a percentage of certain fixed costs, including the principal and interest costs on debt incurred by the City related to plant expansions necessary to meeting the companies' special requirements. These fixed cost payments are due in monthly installments until the year 2010, or until the bonds are paid in full.

The payment percentage is based upon the cost of the facilities required to meet the companies' exact capacity requirements relative to the total cost of the City's initial capacity requirements.

The percentage of the bond principal and interest payments reimbursed by each company follows:

	Dow Chemical Company	Dow Corning Corporation
1992 Saginaw-Midland - Water Revenue Refinancing Bonds	34.00	4.20
1992 Saginaw-Midland - Water Revenue Bonds	34.00	4.20
1993 Saginaw-Midland - Water Revenue Bonds	34.00	4.20
1998 Saginaw-Midland - Water Revenue Refinancing Bonds	34.00	4.20
2000 Water Revenue Refinancing Bonds	37.976	4.667

Note 14 - Enterprise Fund Contractual Revenue (Continued)

Total payments received under these agreements during the fiscal year were \$1,135,813, consisting of principal and interest of \$800,764 and \$335,049, respectively. These payments have been recorded as nonoperating revenue in the City's Enterprise Funds. Under the terms of these agreements, no equity accrues to either company.

Under the terms of the agreement with Dow Chemical Company, the Water Fund shall retain in a Dow Chemical Emergency Repair and Maintenance Fund, \$25,000 to fund Dow's share of non-budgeted repair, replacement, or improvements.

Note 15 - Urban Cooperation Act Agreement

Effective December 30, 1992, the City entered into a 30-year interlocal public agency agreement with the Township of Midland, as authorized by the provisions of Public Act 7 of the Public Acts of the State of Michigan of 1967 (Ex Sess) [MSA 5.4088(1) et seq; MCLA 124.501 et seq].

The agreement provides for (1) the orderly and uncontested annexation to the City of certain property then located in the Township; (2) future sharing, through the year 2022, of revenues derived from the City's levy of property taxes on certain property to be annexed under the agreement; (3) beginning in September 1993, and continuing through the year 2012, the sharing of revenues derived from the City's levy of property taxes on certain commercial and industrial property already located within the City; and (4) extension, at City cost, of water and sewer services by the City to the Township boundary.

The City's obligation under provision 3, above, shall cease if and when total cumulative payments thereunder reach \$15,000,000. The amount of revenue sharing due to the Township by the City under this agreement during the year ended June 30, 2005 was \$350,178.

Due to the tax appeals by the City's three largest taxpayers (see Note 17), the City and the Township have agreed to have the City hold back the portion of the Township's payments in relation to the additional millage levied for the tax appeal reserve. The amount recorded as a liability to the Township in the General Fund is \$2,014,805 as of June 30, 2005.

Note 16 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims, liability and property claims, airport liability and pension fiduciary liability claims, and participates in the Michigan Municipal Workers' Compensation Pool for employee injury claims.

The Michigan Municipal League risk pool programs operate as common risk-sharing/management programs for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 17 - Property Tax Appeals Contingency

In each fiscal year since 1997, the City has faced tax appeals through the Michigan Tax Tribunal (MTT) from its three largest taxpayers: Midland Cogeneration Venture (MCV), the Dow Corning Corporation, and the Dow Chemical Company.

In each of these years, the City has levied an additional property tax millage, the proceeds of which have been set aside to provide partial funding for the potential liability in the event of an unfavorable resolution of these appeals. The amount reserved each year is based upon an annual assessment of the risk involved in each of the appeals.

Significant developments occurred during the months immediately preceding the beginning of the current fiscal year, which led the City's legal counsel to recommend reducing the City's tax appeal reserve relating to MCV and Dow Corning. A decision was reached by the MTT on the MCV tax appeal for the years 1997 through 2000. While this decision was appealed by both parties, it provided sufficient assurance that the City could reduce its reserve. Similarly, the exchange of appraisals and a pre-trial hearing in the Dow Corning tax appeal provided assurances that the City could reduce its reserve.

Since the inception of the appeals, the City has maintained a promise to adjust the tax millage rate as necessary to refund any unused or unnecessary funds in the reserve. The above reductions resulted in a July 2004 property tax refund to City taxpayers of \$1,692,300, or .68 mills.

City of Midland, Michigan

Notes to Financial Statements June 30, 2005

Note 17 - Property Tax Appeals Contingency (Continued)

In October 2004, the City and the Dow Corning Corporation settled a multi-year tax appeal. The settlement provided for an approximate 11 percent reduction of the petitioned taxable values for the tax years under dispute, 1997 through 2004. As of the settlement date, including 2004-2005 tax collections, the City had reserved approximately \$7.2 million in the General Fund, and \$557,000 in Special Revenue Funds to pay potential liabilities as a result of an unfavorable settlement from this tax appeal. The actual settlement resulted in distributions of \$1,914,997 from the General Fund and \$117,470 from Special Revenue Funds. The balance of the amount that the General Fund had reserved for the Dow Corning Corporation settlement was returned to City taxpayers through a millage reduction in July 2005. The balance in Special Revenue Fund reserves will be allocated to future projects.

MCV and Dow Chemical have both filed petitions necessary to appeal their 2005 assessments. It is not currently known how long it will take to settle or adjudicate these two appeals. From 1997 through 2004, the annual combined taxable value under dispute of these two appeals, in millions of dollars, was approximately \$502, \$498, \$505, \$465, \$457, \$487, \$483, and \$521. If granted, in their entirety, the requested adjustments would result in a City refund of property tax and administrative fees of approximately \$48 million.

A summary of the City's General Fund tax appeal reserve and millage are illustrated below:

Fiscal Year	Tax Year	Contribution to Tax Appeal Reserve	Special Millage
1996-97	1996	\$ -	0.00
1997-98	1997	5,029,000	2.30
1998-99	1998	5,834,300	2.49
1999-00	1999	8,063,196	3.24
2000-01	2000	9,226,004	3.64
2001-02	2001	5,457,371	1.94
2002-03	2002	1,255,029	1.44
2003-04	2003	5,235,900	2.13
2004-05	2004	(1,682,366)	(0.68)
Subtotal		38,418,434	
Refunded to Dow Corning		(1,914,997)	
Reserve balance		<u>\$ 36,503,437</u>	

Note 17 - Property Tax Appeals Contingency (Continued)

This reserve will eventually be paid out in satisfaction of these appeals and/or returned to City taxpayers through future millage reductions. Included in the above reserve balance is \$5,332,371, which is the remaining reserve balance for the Dow Corning tax appeal, after Dow Corning was paid its refund.

For reporting purposes in the government-wide statements, the balance of the Dow Corning reserve, which was refunded to taxpayers in July 2005, is reported as unrestricted net assets. The remaining reserve balance, or \$31,171,066, is reported as a long-term liability.

In addition, the City's Special Revenue Funds tax appeal reserve balance, as of June 30, 2005, was \$1,906,718. This amount is not deemed to be refundable, so it will only be paid out in the event of an unfavorable outcome to the tax appeals.

Note 18 - Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2008.

Note 19 - Subsequent Events

Pursuant to resolutions adopted by the City Council on July 11, 2005 and August 22, 2005, on September 13, 2005, General Obligation Unlimited Tax Refunding Bonds of \$9,480,000 were sold. They were issued for the purpose of refunding that portion of the City's outstanding General Obligation Unlimited Tax Bonds, Series 2001, dated as of April 1, 2001, maturing May 1 in the years 2012 through 2021, inclusive, to take advantage of lower interest rates. The terms of the refunding issue are consistent with the original issue as the final payment will be made during 2021. See Note 9 for information related to the original bond issue.

Required Supplemental Information

City of Midland, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 22,877,236	\$ 22,872,056	\$ 22,873,998	\$ 1,942
Other tax-related revenue	1,235,100	1,167,237	1,144,431	(22,806)
Licenses and permits	481,650	473,868	628,832	154,964
Intergovernmental	3,568,000	3,728,357	3,725,852	(2,505)
Charges for services	1,541,600	1,517,017	1,564,170	47,153
Use and admission charges	670,500	708,288	793,634	85,346
Investment earnings	875,000	900,281	1,176,042	275,761
Other revenues	655,670	842,977	680,744	(162,233)
Total revenues	31,904,756	32,210,081	32,587,703	377,622
Expenditures				
General government	4,585,701	4,700,545	4,028,526	672,019
Public safety	10,456,288	10,721,025	10,794,036	(73,011)
Public works	1,873,141	2,053,828	2,005,038	48,790
Sanitation	2,007,707	2,120,898	2,094,429	26,469
Parks and recreation	3,720,785	3,864,802	3,726,384	138,418
Airports	192,241	194,589	185,202	9,387
Tax appeal defense	5,611,555	7,571,196	6,451,758	1,119,438
Other functions	4,104,827	4,195,770	4,108,730	87,040
Capital improvements	428,347	957,009	261,985	695,024
Reserve for contingencies	350,000	-	-	-
Total expenditures	33,330,592	36,379,662	33,656,088	2,723,574
Excess of Expenditures Over Revenues	(1,425,836)	(4,169,581)	(1,068,385)	3,101,196
Other Financing Sources (Uses)				
Operating transfers in	25,000	-	23,738	23,738
Operating transfers out	(5,254,074)	(5,958,519)	(5,898,060)	60,459
Net Change in Fund Balance	(6,654,910)	(10,128,100)	(6,942,707)	3,185,393
Fund Balance - Beginning of year	47,330,967	47,330,967	47,330,967	-
Fund Balance - End of year	\$ 40,676,057	\$ 37,202,867	\$ 40,388,260	\$ 3,185,393

City of Midland, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
County road millage	\$ 350,000	\$ 350,000	\$ 350,000	\$ -
Intergovernmental - State-shared revenue	2,774,000	2,894,000	2,852,249	(41,751)
Charges for services	93,745	125,416	139,912	14,496
Investment earnings	16,000	44,787	67,404	22,617
Other revenues	12,000	133,006	124,082	(8,924)
Total revenues	3,245,745	3,547,209	3,533,647	(13,562)
Expenditures				
Engineering	122,650	123,078	127,418	(4,340)
Roadway maintenance	227,813	159,107	134,224	24,883
Guardrail maintenance	4,774	3,092	1,442	1,650
Sweeping and flushing	119,443	120,058	126,774	(6,716)
Shoulder maintenance	6,297	12,099	8,580	3,519
Roadside drainage	88,388	81,301	61,878	19,423
Curb and gutter maintenance	33,319	44,760	41,523	3,237
Roadside cleanup	13,002	14,442	20,029	(5,587)
Dust control	12,513	-	-	-
Snow and ice control	409,068	363,203	354,881	8,322
Traffic services	358,880	389,375	379,876	9,499
Trunkline maintenance	93,745	127,054	115,892	11,162
Stormwater activities credit	(91,162)	(85,926)	(72,368)	(13,558)
Reserve for contingencies	20,000	-	-	-
Total expenditures	1,418,730	1,351,643	1,300,149	51,494
Excess of Revenues Over Expenditures	1,827,015	2,195,566	2,233,498	37,932
Other Financing Sources (Uses)				
Operating transfers in	-	227,944	-	(227,944)
Operating transfers out	(2,390,162)	(2,608,891)	(2,375,289)	233,602
Net Change in Fund Balance	(563,147)	(185,381)	(141,791)	43,590
Fund Balance - Beginning of year	1,760,087	1,760,087	1,760,087	-
Fund Balance - End of year	\$ 1,196,940	\$ 1,574,706	1,618,296	\$ 43,590

Reconciliation to include Major Street Construction Fund activity for government-wide and fund statements:

Fund Balance - Beginning of year	4,989,760
Revenue	1,355,207
Expenditures	(2,332,578)
Net operating transfers	2,853,476
Fund Balance - End of year	\$ 8,484,161

City of Midland, Michigan

Required Supplemental Information Note to Required Supplemental Information Year Ended June 30, 2005

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Funds. All annual appropriations lapse at the end of the fiscal year.

On or before the second Monday in April, the City Manager presents the proposed budget to the City Council for review. The City holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. During the current year, the budget was amended in a legally permissible manner.

The City Council approves the annual budget, which is prepared at the functional level.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts, and other commitments for the expenditure of monies) outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City did not approve budgets for the General Construction Fund and the Cemetery Fund. Accordingly, no budget comparison schedules are provided for.

The City did not approve budgets for the Major Street Construction Fund and the Local Street Construction Fund. For the government-wide and fund financial statements, these two funds have been combined with the Major Street Fund and Local Street Fund, respectively. For the budgetary comparison schedules, the activity relating to these construction funds is shown in the reconciliation at the bottom of the budgetary comparison schedule for the Major Street Fund and Local Street Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City of Midland incurred expenditures that were in excess of amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The significant budget overruns follow:

- General Fund - Public safety budget overrun of \$73,011 due to greater than anticipated personnel costs associated with the firefighters' contract settlement
- Transportation Fund - Operations budget overrun of \$40,664 due to greater than anticipated vehicle maintenance costs
- Special Activities Fund - The budget for the Special Activities Fund included the accumulation of contributions for the construction of a new airport terminal building, as well as the capital expense of those contributions for the building construction. Ultimately, the construction costs occurred in the General Construction Fund, and those funds accumulated in the Special Activities Fund were transferred to the General Construction Fund. This resulted in a favorable variance for capital outlay of over \$400,000 and a similar unfavorable variance to operating transfers out.

City of Midland, Michigan

Required Supplemental Information Retirement Systems Schedule of Funding Progress Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/99	\$ 53,238,098	\$ 40,481,803	\$ (12,756,295)	131.5	\$ 4,368,081	-
12/31/00	58,118,623	41,657,539	(16,461,084)	139.5	4,469,249	-
12/31/01	58,752,348	44,458,293	(14,294,055)	132.2	4,939,281	-
12/31/02	55,073,738	47,343,528	(7,730,210)	116.3	5,534,596	-
12/31/03	51,008,034	49,478,634	(1,529,400)	103.1	5,582,280	-
12/31/04	48,603,366	50,436,943	1,833,577	96.4	5,419,813	33.8

City of Midland, Michigan

Retirement Systems Schedule of Employer Contributions Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution	Percentage Contributed
2000	\$ 488,048	\$ 488,048	100.00
2001	63,710	63,710	100.00
2002	-	-	100.00
2003	-	-	100.00
2004	194,061	194,061	100.00
2005	929,589	929,589	100.00

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of December 31, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Amortization period (perpetual)	10 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases*	4.5%
*Includes inflation at	4.5%
Additional salary increases attributable to seniority/merit	0% to 5.2%

Other Supplemental Information

City of Midland, Michigan

Other Supplemental Information Nonmajor Governmental Funds Year Ended June 30, 2005

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Local Street Fund - This fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as local streets.

Storm Water Management Fund - This fund accounts for storm sewer maintenance, open drain cleaning, and county drain assessments related to storm water management within the City.

Transportation Fund - This fund accounts for the City's Dial-A-Ride transportation system.

Grace A. Dow Memorial Library Fund - This fund accounts for library services revenue and a General Fund subsidy to be used for providing library services to the citizens of Midland.

Downtown Development Authority Fund - This fund accounts for property taxes levied by an authority established for the purpose of maintaining and renovating the downtown Midland area.

Community Development Block Grant Fund - This fund accounts for grant revenues from the Department of Housing and Urban Development to be used for residential and other capital improvements.

Special Activities - This fund accounts for resources held by the City in a purely custodial capacity.

Midland Housing Fund - This fund is used to account for a housing rehabilitation trust, which was established by a local foundation.

Cable Communications Fund - This fund accounts for franchise fees generated by an agreement with a local cable company to support two public access channels operated by the City.

City of Midland, Michigan

Other Supplemental Information Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

Debt Service Fund

The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Permanent Fund

The Cemetery Fund is used to account for the Midland Cemetery perpetual care principal and interest earnings.

City of Midland, Michigan

	Special Revenue Funds				
	Local Street	Stormwater Management	Transportation	Grace A. Dow Memorial Library	Downtown Development Authority
Assets					
Cash and cash equivalents	\$ 1,178,092	\$ 392,479	\$ 41,771	\$ 60,626	\$ 926,037
Receivables - Net of allowances for uncollectibles:					
Property taxes	-	-	-	-	805
Trust deeds	-	-	-	-	-
Accounts and contracts	-	120	816	33,037	-
Accrued interest	4,833	1,744	89	822	5,448
Due from other funds	-	-	-	-	-
Due from other governments	127,371	-	77,828	-	-
Inventories	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	\$ 1,310,296	\$ 394,343	\$ 120,504	\$ 94,485	\$ 932,290
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 141,047	\$ 2,908	\$ 7,277	\$ 52,647	\$ 8,179
Accrued salaries and wages	-	-	12,932	34,437	2,439
Due to other governments	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits	-	-	-	406	-
Deferred revenue	-	-	24,077	-	-
Total liabilities	141,047	2,908	44,286	87,490	10,618
Fund Balance					
Reserved for:					
Encumbrances	6,067	20,000	65,000	6,995	196,025
Trust deeds/installment contracts	-	-	-	-	-
Tax appeal contingency	414,414	-	-	-	-
Special trust activities	-	-	-	-	-
Cemetery operations	-	-	-	-	-
Debt service	-	-	-	-	-
Housing activities	-	-	-	-	-
Unreserved:					
Designated for future year's expenditures	203,565	237,724	-	-	84,930
Undesignated	545,203	133,711	11,218	-	640,717
Total fund balance	1,169,249	391,435	76,218	6,995	921,672
Total liabilities and fund balance	\$ 1,310,296	\$ 394,343	\$ 120,504	\$ 94,485	\$ 932,290

**Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
Year Ended June 30, 2005**

Special Revenue Funds				Debt Service Fund	Permanent Fund	
Community Development Block Grant	Cable Communications	Special Activities	Midland Housing	Debt Service	Cemetery	Total Nonmajor Governmental Funds
\$ 643	\$ 74,733	\$ 111,796	\$ 327,876	\$ -	\$ 1,429,867	\$ 4,543,920
-	-	-	-	13,304	-	14,109
1,577,337	-	-	5,546	-	-	1,582,883
-	111,098	19,757	431,029	-	2,605	598,462
-	230	233	1,175	268	5,349	20,191
217,315	-	-	-	-	-	217,315
-	-	-	-	-	-	205,199
-	-	-	458,154	-	-	458,154
-	-	-	-	-	-	-
<u>\$ 1,795,295</u>	<u>\$ 186,061</u>	<u>\$ 131,786</u>	<u>\$ 1,223,780</u>	<u>\$ 13,572</u>	<u>\$ 1,437,821</u>	<u>\$ 7,640,233</u>
\$ 43,150	\$ 4,647	\$ 1,604	\$ 81,990	\$ 5,588	\$ -	\$ 349,037
-	5,335	-	-	-	-	55,143
-	-	-	-	-	-	-
-	-	-	367,315	-	-	367,315
-	-	25,442	-	-	-	25,848
17,087	-	-	-	-	-	41,164
60,237	9,982	27,046	449,305	5,588	-	838,507
-	1,084	-	-	-	-	295,171
1,577,337	-	-	-	-	-	1,577,337
-	-	-	-	-	-	414,414
-	-	104,740	-	-	-	104,740
-	-	-	-	-	1,437,821	1,437,821
-	-	-	-	7,984	-	7,984
-	-	-	774,475	-	-	774,475
-	92,202	-	-	-	-	618,421
157,721	82,793	-	-	-	-	1,571,363
1,735,058	176,079	104,740	774,475	7,984	1,437,821	6,801,726
<u>\$ 1,795,295</u>	<u>\$ 186,061</u>	<u>\$ 131,786</u>	<u>\$ 1,223,780</u>	<u>\$ 13,572</u>	<u>\$ 1,437,821</u>	<u>\$ 7,640,233</u>

City of Midland, Michigan

	Special Revenue Funds				
	Local Street	Stormwater Management	Transportation	Grace A. Dow Memorial Library	Downtown Development Authority
Revenues					
Property taxes	\$ 625,000	\$ -	\$ -	\$ -	\$ 393,123
Licenses and permits	-	22,153	-	-	-
Intergovernmental - Federal	-	-	166,284	-	-
Intergovernmental - Other	787,335	-	560,596	66,152	-
Charges for services	-	-	119,672	616,097	-
Investment earnings	23,570	13,748	628	4,312	35,370
Contributions and other revenues	25,000	-	150	174,197	30,873
Total revenues	1,460,905	35,901	847,330	860,758	459,366
Expenditures					
Current:					
General government	-	-	-	-	-
Public works	984,993	461,021	-	-	-
Community development	-	-	-	-	212,064
Library	-	-	-	3,541,448	-
Transportation	-	-	1,427,883	-	-
Capital improvement	1,029,064	-	-	187,775	7,250
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	2,014,057	461,021	1,427,883	3,729,223	219,314
Excess of Revenues Over (Under) Expenditures	(553,152)	(425,120)	(580,553)	(2,868,465)	240,052
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	-	-
Operating transfers in	669,000	1,631,078	611,772	2,851,779	-
Operating transfers out	(199,906)	(2,531,890)	-	-	(1,357,819)
Total other financing sources (uses)	469,094	(900,812)	611,772	2,851,779	(1,357,819)
Net Change in Fund Balances	(84,058)	(1,325,932)	31,219	(16,686)	(1,117,767)
Fund Balances - Beginning of year	1,253,307	1,717,367	44,999	23,681	2,039,439
Fund Balances - End of year	<u>\$ 1,169,249</u>	<u>\$ 391,435</u>	<u>\$ 76,218</u>	<u>\$ 6,995</u>	<u>\$ 921,672</u>

Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2005

Special Revenue Funds				Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
Community Development Block Grant	Cable Communications	Special Activities	Midland Housing	Debt Service	Cemetery	
\$ -	\$ -	\$ -	\$ -	\$ 1,598,100	\$ -	\$ 2,616,223
-	-	-	-	-	-	22,153
219,388	-	-	-	-	-	385,672
-	-	11,257	-	-	-	1,425,340
-	447,850	-	-	-	-	1,183,619
1,026	1,904	1,167	5,911	6,401	27,987	122,024
-	900	289,172	-	-	204,230	724,522
220,414	450,654	301,596	5,911	1,604,501	232,217	6,479,553
-	474,637	27,210	-	-	-	501,847
-	-	-	-	-	-	1,446,014
180,903	-	-	139,581	-	-	532,548
-	-	-	-	-	-	3,541,448
-	-	-	-	-	-	1,427,883
-	55,539	-	-	-	-	1,279,628
-	-	-	-	135,000	-	135,000
-	-	-	-	191,568	-	191,568
180,903	530,176	27,210	139,581	326,568	-	9,055,936
39,511	(79,522)	274,386	(133,670)	1,277,933	232,217	(2,576,383)
61,002	2,081	-	152,328	-	-	215,411
-	-	-	-	519,133	-	6,282,762
-	-	(417,406)	-	(1,790,793)	-	(6,297,814)
61,002	2,081	(417,406)	152,328	(1,271,660)	-	200,359
100,513	(77,441)	(143,020)	18,658	6,273	232,217	(2,376,024)
1,634,545	253,520	247,760	755,817	1,711	1,205,604	9,177,750
<u>\$ 1,735,058</u>	<u>\$ 176,079</u>	<u>\$ 104,740</u>	<u>\$ 774,475</u>	<u>\$ 7,984</u>	<u>\$ 1,437,821</u>	<u>\$ 6,801,726</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
County road millage	\$ 625,000	\$ 625,000	\$ 625,000	\$ -
Intergovernmental	766,600	775,000	787,335	12,335
Investment earnings	6,000	16,149	23,570	7,421
Total revenues	<u>1,397,600</u>	<u>1,416,149</u>	<u>1,435,905</u>	<u>19,756</u>
Expenditures				
Engineering	58,050	59,666	69,722	(10,056)
Roadway maintenance	320,545	212,653	206,568	6,085
Guardrail maintenance	4,774	1,201	-	1,201
Sweeping and flushing	168,606	150,994	166,802	(15,808)
Shoulder maintenance	10,162	9,203	4,149	5,054
Roadside drainage	194,226	151,917	140,859	11,058
Curb and gutter maintenance	168,805	123,600	135,142	(11,542)
Roadside cleanup	13,685	8,669	11,109	(2,440)
Dust control	23,005	20,074	22,828	(2,754)
Bridge maintenance	-	-	-	-
Snow and ice control	228,869	290,262	302,028	(11,766)
Traffic services	68,640	76,478	66,645	9,833
Stormwater activities credit	(194,226)	(151,917)	(140,859)	(11,058)
Reserve for contingencies	20,000	-	-	-
Total expenditures	<u>1,085,141</u>	<u>952,800</u>	<u>984,993</u>	<u>(32,193)</u>
Excess of Revenues Over Expenditures	312,459	463,349	450,912	(12,437)
Other Financing Sources (Uses)				
Operating transfers in	669,000	856,990	669,000	(187,990)
Operating transfers out	<u>(1,247,226)</u>	<u>(1,324,907)</u>	<u>(1,008,482)</u>	<u>316,425</u>
Net Change in Fund Balance	(265,767)	(4,568)	111,430	115,998
Fund Balance - Beginning of year	<u>821,961</u>	<u>821,961</u>	<u>821,961</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 556,194</u>	<u>\$ 817,393</u>	<u>933,391</u>	<u>\$ 115,998</u>

Reconciliation to include Local Street Construction Fund activity
for government-wide and fund financial statements:

Fund balance - Beginning of year	431,346
Revenues	25,000
Expenditures	(1,029,064)
Net operating transfers	<u>808,576</u>
Fund balance - End of year	<u>\$ 1,169,249</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Stormwater Management Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Charges for services	\$ 19,000	\$ 23,555	\$ 22,153	\$ (1,402)
Investment earnings	4,500	17,519	13,748	(3,771)
Total revenues	23,500	41,074	35,901	(5,173)
Expenditures				
Administration	20,082	19,154	19,154	-
Open drain maintenance	125,750	20,534	19,675	859
Storm sewer maintenance	258,595	219,912	144,788	75,124
Inspection expenses	15,501	23,628	27,199	(3,571)
Storm sewer repair	9,500	93,155	36,978	56,177
Purchased services	285,388	237,842	213,227	24,615
Sump lead installation	-	11,500	-	11,500
Reserve for contingency	25,000	-	-	-
Total expenditures	739,816	625,725	461,021	164,704
Excess of Expenditures Over Revenues	(716,316)	(584,651)	(425,120)	159,531
Other Financing Sources (Uses)				
Operating transfers in	1,685,388	1,637,843	1,631,078	(6,765)
Operating transfers out	(1,450,000)	(2,525,526)	(2,531,890)	(6,364)
Net Change in Fund Balance	(480,928)	(1,472,334)	(1,325,932)	146,402
Fund Balance - Beginning of year	1,717,367	1,717,367	1,717,367	-
Fund Balance - End of year	<u>\$ 1,236,439</u>	<u>\$ 245,033</u>	<u>\$ 391,435</u>	<u>\$ 146,402</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Transportation Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Use and admission charges	\$ 120,000	\$ 115,150	\$ 119,822	\$ 4,672
Intergovernmental - Federal	142,396	142,932	166,284	23,352
Intergovernmental - State	568,452	527,588	560,596	33,008
Investment earnings	-	620	628	8
Total revenues	830,848	786,290	847,330	61,040
Expenditures				
Operations	1,046,707	1,083,605	1,124,270	(40,665)
Administration	130,100	122,523	127,228	(4,705)
Dispatching	102,297	110,111	107,732	2,379
Capital outlay	20,000	65,000	-	65,000
Other	72,430	79,898	68,653	11,245
Reserve for contingency	10,000	-	-	-
Total expenditures	1,381,534	1,461,137	1,427,883	33,254
Excess of Expenditures Over Revenues	(550,686)	(674,847)	(580,553)	94,294
Other Financing Sources - Operating transfers in	550,686	629,848	611,772	(18,076)
Net Change in Fund Balance	-	(44,999)	31,219	76,218
Fund Balance - Beginning of year	44,999	44,999	44,999	-
Fund Balance - End of year	<u>\$ 44,999</u>	<u>\$ -</u>	<u>\$ 76,218</u>	<u>\$ 76,218</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Grace A. Dow Library Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
State aid	\$ 60,000	\$ 66,000	\$ 66,152	\$ 152
Library services	671,401	593,292	616,097	22,805
Investment earnings	3,000	3,002	4,312	1,310
Other revenues	24,000	183,369	174,197	(9,172)
Total revenues	758,401	845,663	860,758	15,095
Expenditures				
Personal services	2,162,361	2,169,235	2,138,150	31,085
Supplies	708,620	727,856	728,892	(1,036)
Other charges	733,756	705,233	674,406	30,827
Capital outlay	68,400	205,578	187,775	17,803
Total expenditures	3,673,137	3,807,902	3,729,223	78,679
Excess of Expenditures Over Revenues	(2,914,736)	(2,962,239)	(2,868,465)	93,774
Other Financing Sources - Operating transfers in	2,914,736	2,938,558	2,851,779	(86,779)
Net Change in Fund Balance	-	(23,681)	(16,686)	6,995
Fund Balance - Beginning of year	23,681	23,681	23,681	-
Fund Balance - End of year	<u>\$ 23,681</u>	<u>\$ -</u>	<u>\$ 6,995</u>	<u>\$ 6,995</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Downtown Development Authority Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 414,500	\$ 394,426	\$ 393,123	\$ (1,303)
Investment earnings	16,000	23,370	35,370	12,000
Other revenue	14,500	30,945	30,873	(72)
Total revenues	445,000	448,741	459,366	10,625
Expenditures				
Personal services	106,083	110,434	102,385	8,049
Supplies	1,650	1,940	1,841	99
Other charges	134,142	144,351	107,838	36,513
Capital expenditures	205,000	184,500	7,250	177,250
Reserve for contingency	15,000	-	-	-
Total expenditures	461,875	441,225	219,314	221,911
Excess of Revenues Over (Under) Expenditures	(16,875)	7,516	240,052	232,536
Other Financing Uses - Operating transfers out	(185,413)	(1,357,482)	(1,357,819)	(337)
Net Change in Fund Balance	(202,288)	(1,349,966)	(1,117,767)	232,199
Fund Balance - Beginning of year	2,039,439	2,039,439	2,039,439	-
Fund Balance - End of year	<u>\$ 1,837,151</u>	<u>\$ 689,473</u>	<u>\$ 921,672</u>	<u>\$ 232,199</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Federal grants	\$ 303,000	\$ 300,000	\$ 219,388	\$ (80,612)
Program income	100,230	75,000	-	(75,000)
Investment earnings	-	-	1,026	1,026
Total revenues	<u>403,230</u>	<u>375,000</u>	<u>220,414</u>	<u>(154,586)</u>
Expenditures				
Administration	25,000	43,353	39,587	3,766
Residential home rehabs	155,300	220,085	46,299	173,786
Public services project	65,700	62,025	54,983	7,042
Affordable housing	3,230	12,239	8,129	4,110
Removal of architectural barriers	60,000	59,000	30,000	29,000
Environmental reviews	-	-	1,905	(1,905)
Land acquisition and infrastructure - Housing	50,000	50,000	-	50,000
Reserve for contingencies	10,000	-	-	-
Total expenditures	<u>369,230</u>	<u>446,702</u>	<u>180,903</u>	<u>265,799</u>
Excess of Revenues Over (Under) Expenditures	34,000	(71,702)	39,511	111,213
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	-	61,002	61,002
Operating transfers out	(50,000)	(50,000)	-	50,000
Net Change in Fund Balance	(16,000)	(121,702)	100,513	222,215
Fund Balance - Beginning of year	<u>1,634,545</u>	<u>1,634,545</u>	<u>1,634,545</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 1,618,545</u>	<u>\$ 1,512,843</u>	<u>\$ 1,735,058</u>	<u>\$ 222,215</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Cable Communications Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Charges for services	\$ 467,000	\$ 455,643	\$ 447,850	\$ (7,793)
Investment earnings	4,248	2,476	1,904	(572)
Other revenues	-	2,981	2,981	-
Total revenues	471,248	461,100	452,735	(8,365)
Expenditures				
Personal services	300,254	300,469	300,760	(291)
Supplies	19,410	23,906	22,450	1,456
Other charges	144,901	155,956	151,427	4,529
Reserve for contingencies	12,000	-	-	-
Capital outlay	97,700	75,342	55,539	19,803
Total expenditures	574,265	555,673	530,176	25,497
Net Change in Fund Balance	(103,017)	(94,573)	(77,441)	17,132
Fund Balance - Beginning of year	253,520	253,520	253,520	-
Fund Balance - End of year	<u>\$ 150,503</u>	<u>\$ 158,947</u>	<u>\$ 176,079</u>	<u>\$ 17,132</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Special Activities Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Grant revenue	\$ 5,000	\$ 6,083	\$ 11,257	\$ 5,174
Contributions and other revenues	375,000	289,916	289,172	(744)
Investment earnings	1,000	935	1,167	232
Total revenues	381,000	296,934	301,596	4,662
Expenditures				
Supplies	10,000	8,336	9,699	(1,363)
Other charges	10,000	9,432	13,832	(4,400)
Capital outlay	435,000	428,679	3,679	425,000
Total expenditures	455,000	446,447	27,210	419,237
Net Change in Fund Balance	(74,000)	(149,513)	274,386	423,899
Other Financing Uses - Operating transfers out	-	-	(417,406)	(417,406)
Fund Balance - Beginning of year	247,760	247,760	247,760	-
Fund Balance - End of year	<u>\$ 173,760</u>	<u>\$ 98,247</u>	<u>\$ 104,740</u>	<u>\$ 6,493</u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Midland Housing Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Investment earnings	\$ 4,000	\$ 4,758	\$ 5,911	\$ 1,153
Proceeds from sale of assets	<u>200,000</u>	<u>130,000</u>	<u>152,328</u>	<u>22,328</u>
Total revenues	<u>204,000</u>	<u>134,758</u>	<u>158,239</u>	<u>23,481</u>
Expenditures				
Cost of assets sold	175,000	146,000	137,044	8,956
Warranty maintenance	<u>5,000</u>	<u>4,816</u>	<u>2,537</u>	<u>2,279</u>
Total expenditures	<u>180,000</u>	<u>150,816</u>	<u>139,581</u>	<u>11,235</u>
Net Change in Fund Balance	24,000	(16,058)	18,658	34,716
Fund Balance - Beginning of year	<u>755,817</u>	<u>755,817</u>	<u>755,817</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 779,817</u></u>	<u><u>\$ 739,759</u></u>	<u><u>\$ 774,475</u></u>	<u><u>\$ 34,716</u></u>

City of Midland, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Debt Service Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 1,552,100	\$ 1,552,100	\$ 1,549,800	\$ (2,300)
Industrial facilities tax	47,200	47,200	47,214	14
Investment earnings	-	6,838	6,401	(437)
Total revenues	<u>1,599,300</u>	<u>1,606,138</u>	<u>1,603,415</u>	<u>(2,723)</u>
Expenditures				
Principal retirement:				
1990 DDA bonds	85,000	85,000	85,000	-
1992 DDA bonds	50,000	50,000	50,000	-
Interest:				
1990 DDA bonds	2,826	2,826	2,826	-
1992 DDA bonds	16,413	16,413	16,413	-
2004 Civic arena bonds	-	169,955	169,955	-
Paying agent fees	1,175	1,175	1,288	(113)
Total expenditures	<u>155,414</u>	<u>325,369</u>	<u>325,482</u>	<u>(113)</u>
Excess of Revenues Over Expenditures	<u>1,443,886</u>	<u>1,280,769</u>	<u>1,277,933</u>	<u>(2,836)</u>
Other Financing Sources (Uses)				
Operating transfers in	349,066	519,021	519,133	112
Operating transfers out	<u>(1,790,793)</u>	<u>(1,790,793)</u>	<u>(1,790,793)</u>	-
Net Change in Fund Balance	2,159	8,997	6,273	(2,724)
Fund Balance - Beginning of year	<u>1,711</u>	<u>1,711</u>	<u>1,711</u>	-
Fund Balance - End of year	<u>\$ 3,870</u>	<u>\$ 10,708</u>	<u>\$ 7,984</u>	<u>\$ (2,724)</u>

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Year Ended June 30, 2005

Enterprise Funds

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

Golf Course Fund - This fund accounts for the operations of the Currie Municipal Golf Course.

Parking System Fund - This fund accounts for the operations of the City's metered and leased parking spaces and downtown parking structure.

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Net Assets June 30, 2005

	Golf Course	Parking System	Total Nonmajor Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ 61,965	\$ 61,965
Investments	345,998	-	345,998
Receivables - Net of allowances for uncollectibles:			
Accounts and contracts	-	5,508	5,508
Accrued interest	-	203	203
Total current assets	345,998	67,676	413,674
Property, plant, and equipment:			
Land and land improvements	4,830,415	1,158,415	5,988,830
Buildings and structure	1,333,219	1,413,000	2,746,219
Vehicles	76,716	-	76,716
Equipment	237,054	8,669	245,723
Total property, plant, and equipment	6,477,404	2,580,084	9,057,488
Accumulated depreciation	(1,159,310)	(646,028)	(1,805,338)
Net property, plant, and equipment	5,318,094	1,934,056	7,252,150
Total assets	5,664,092	2,001,732	7,665,824
Liabilities - Current liabilities - Accounts payable	312,570	989	313,559
Net Assets			
Investment in capital assets	5,318,094	1,934,056	7,252,150
Unrestricted	33,428	66,687	100,115
Total net assets	\$ 5,351,522	\$ 2,000,743	\$ 7,352,265

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Golf Course	Parking System	Total Nonmajor Proprietary Funds
Operating Revenues - Use and admission charges	\$ 764,735	\$ 78,444	\$ 843,179
Operating Expenses			
Operations	791,232	45,978	837,210
Maintenance	-	69,884	69,884
Depreciation	136,291	38,383	174,674
Total operating expenditures	927,523	154,245	1,081,768
Net Operating Loss	(162,788)	(75,801)	(238,589)
Nonoperating Revenues (Expenses)			
Investment earnings	34,324	1,067	35,391
Other expenses	(3,218)	-	(3,218)
Total nonoperating revenues	31,106	1,067	32,173
Loss - Before operating transfers	(131,682)	(74,734)	(206,416)
Operating Transfers In	-	30,000	30,000
Change in Net Assets	(131,682)	(44,734)	(176,416)
Net Assets - Beginning of year	5,483,204	2,045,477	7,528,681
Net Assets - End of year	<u>\$ 5,351,522</u>	<u>\$ 2,000,743</u>	<u>\$ 7,352,265</u>

City of Midland, Michigan

Other Supplemental Information Nonmajor Proprietary Funds Combining Statement of Cash Flows Year Ended June 30, 2005

	Golf Course	Parking System	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 764,735	\$ 80,609	\$ 845,344
Payment to suppliers	(399,057)	(80,720)	(479,777)
Payment to employees	(365,682)	(34,766)	(400,448)
Other receipts	240	-	240
Net cash provided (used) in operating activities	236	(34,877)	(34,641)
Cash Flows from Noncapital Financing Activities -			
Operating transfers in	-	30,000	30,000
Cash Flows from Capital and Related Financing Activities -			
Acquisition of capital assets	(4,800)	-	(4,800)
Cash Flows from Investing Activities -			
Investment earnings	4,564	960	5,524
Net Decrease in Cash and Cash Equivalents	-	(3,917)	(3,917)
Cash and Cash Equivalents - Beginning of year	-	65,882	65,882
Cash and Cash Equivalents - End of year	<u>\$ -</u>	<u>\$ 61,965</u>	<u>\$ 61,965</u>
Noncash Investing Activities - Changes in fair value of investments	<u>\$ 29,759</u>	<u>\$ -</u>	<u>\$ 29,759</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (162,788)	\$ (75,801)	\$ (238,589)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	136,291	38,383	174,674
Miscellaneous cash received	240	-	240
Changes in operating assets and liabilities:			
Accounts receivable	-	2,165	2,165
Accounts payable	26,493	376	26,869
Net cash provided (used) in operating activities	<u>\$ 236</u>	<u>\$ (34,877)</u>	<u>\$ (34,641)</u>

City of Midland, Michigan

Other Supplemental Information Fiduciary Funds Year Ended June 30, 2005

Trust Funds

Trust Funds are used to account for assets held by the City in a trustee capacity.

Police and Fire Pension Fund - This fund accounts for the accumulation of resources for, and the payment of, pension benefits.

Postemployment Health Care Fund - This fund accounts for revenues and expenses resulting primarily from the City's self-funding contributions toward postemployment health care benefits.

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, or other governments.

Shopping Area Redevelopment Fund - The City acts as an agent for the financial management of this authority. This fund accounts for special assessments charged against property owners within the authority district for promotion of the area.

Tax Collection Fund - This fund is used to account for taxes collected on behalf of other governmental units.

City of Midland, Michigan

Other Supplemental Information Pension and Other Employee Benefit Trust Funds Statement of Plan Net Assets June 30, 2005

	Police and Fire Pension	Post- employment Health Care	Total
Assets			
Cash and cash equivalents	\$ 1,464,479	\$ 10,326,519	\$ 11,790,998
Investments:			
Common stock	24,305,877	-	24,305,877
Preferred stock	1,358,569	-	1,358,569
Bonds	8,831,396	-	8,831,396
U.S. government securities	1,832,973	-	1,832,973
Mortgage and asset-backed securities	2,725,401	-	2,725,401
International funds	6,110,441	-	6,110,441
Receivables - Net of allowances for uncollectibles:			
Accounts and contracts	-	1,986	1,986
Accrued interest	86,996	36,393	123,389
Total assets	<u>\$ 46,716,132</u>	<u>\$ 10,364,898</u>	<u>\$ 57,081,030</u>
Net Assets			
Held in trust for pension benefits	\$ 46,716,132	\$ -	\$ 46,716,132
Held in trust for postemployment health benefits	-	10,364,898	10,364,898
Total net assets	<u>\$ 46,716,132</u>	<u>\$ 10,364,898</u>	<u>\$ 57,081,030</u>

City of Midland, Michigan

Other Supplemental Information Pension and Other Employee Benefit Trust Funds Statement of Changes in Plan Net Assets Year Ended June 30, 2005

	Police and Fire Pension	Post- employment Health Care	Total
Additions			
Contributions:			
Employer	\$ 929,589	\$ 940,122	\$ 1,869,711
Employee	418,836	-	418,836
Total contributions	1,348,425	940,122	2,288,547
Investment income:			
Net appreciation in fair value of assets	1,705,313	-	1,705,313
Interest	540,504	190,130	730,634
Dividends	426,052	-	426,052
Total investment income	2,671,869	190,130	2,861,999
Less investment expenses	(312,842)	-	(312,842)
Net investment income	2,359,027	190,130	2,549,157
Total additions	3,707,452	1,130,252	4,837,704
Deductions - Benefit payments	2,589,167	4,348	2,593,515
Change in Net Assets	1,118,285	1,125,904	2,244,189
Net Assets Held in Trust			
Beginning of year	45,597,847	9,238,994	54,836,841
End of year	<u>\$ 46,716,132</u>	<u>\$ 10,364,898</u>	<u>\$ 57,081,030</u>

City of Midland, Michigan

Other Supplemental Information Agency Funds Combining Statement of Changes in Plan Net Assets Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<u>Shopping Area Redevelopment Authority</u>				
Assets				
Cash and cash equivalents	\$ 4,969	\$ 38,340	\$ 33,475	\$ 9,834
Accrued interest	23	106	79	50
Property taxes	36,006	112,402	112,403	36,005
Total assets	<u>\$ 40,998</u>	<u>\$ 150,848</u>	<u>\$ 145,957</u>	<u>\$ 45,889</u>
Liabilities				
Accounts payable	\$ -	\$ 20,724	\$ 18,637	\$ 2,087
Due to other governmental units	4,992	7,796	4,992	7,796
Deferred revenue	36,006	75,284	75,284	36,006
Total liabilities	<u>\$ 40,998</u>	<u>\$ 103,804</u>	<u>\$ 98,913</u>	<u>\$ 45,889</u>
<u>Tax Collection Fund</u>				
Assets				
Cash and cash equivalents	\$ (15,734)	\$ 85,072,882	\$ 85,046,198	\$ 10,950
Accounts and contracts	23,527	2,315,444	2,338,971	-
Total assets	<u>\$ 7,793</u>	<u>\$ 87,388,326</u>	<u>\$ 87,385,169</u>	<u>\$ 10,950</u>
Liabilities - Due to other governmental units	<u>\$ 7,793</u>	<u>\$ 87,388,326</u>	<u>\$ 87,385,169</u>	<u>\$ 10,950</u>
<u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ (10,765)	\$ 85,111,222	\$ 85,079,673	\$ 20,784
Accounts and contracts	23,527	2,315,444	2,338,971	-
Accrued interest	23	106	79	50
Property taxes	36,006	112,402	112,403	36,005
Total assets	<u>\$ 48,791</u>	<u>\$ 87,539,174</u>	<u>\$ 87,531,126</u>	<u>\$ 56,839</u>
Liabilities				
Accounts payable	\$ -	\$ 20,724	\$ 18,637	\$ 2,087
Due to other governmental funds	12,785	87,396,122	87,390,161	18,746
Deferred revenue	36,006	75,284	75,284	36,006
Total liabilities	<u>\$ 48,791</u>	<u>\$ 87,492,130</u>	<u>\$ 87,484,082</u>	<u>\$ 56,839</u>

City of Midland, Michigan

Other Supplemental Information Internal Service Funds Year Ended June 30, 2005

Internal Service Funds

Internal Service Funds are used to account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Data Processing Fund - This fund accounts for the operations of the City's Information Services Department.

Equipment Revolving Fund - This fund accounts for the rental charges of City-owned equipment to other City departments.

Service Center Rental Fund - This fund accounts for the operations of the City's Service Center building.

Insurance Claims Fund - This fund accounts for insurance expenses resulting from property and liability claims.

Special Assessment Revolving Fund - This fund accounts for the funding of the City's special assessment projects.

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Assets			
Current assets:			
Cash and investments	\$ 1,827,621	\$ 2,501,336	\$ 640,212
Receivables:			
Accounts and contracts	534	-	-
Special assessments - Current	-	-	-
Accrued interest	6,829	10,432	2,405
Due from other funds	-	-	-
Inventories	-	372,003	-
Prepaid items	-	-	-
Total current assets	<u>1,834,984</u>	<u>2,883,771</u>	<u>642,617</u>
Special assessments - Long-term	-	-	-
Property, plant, and equipment:			
Construction in progress	45,000	-	-
Land and land improvements	-	-	371,153
Buildings and structures	-	29,493	2,700,696
Vehicles	-	12,242,501	-
Equipment	<u>2,025,310</u>	<u>779,630</u>	<u>107,956</u>
Total property, plant, and equipment	2,070,310	13,051,624	3,179,805
Accumulated depreciation	<u>(1,815,119)</u>	<u>(7,057,502)</u>	<u>(2,249,312)</u>
Net property, plant, and equipment	<u>255,191</u>	<u>5,994,122</u>	<u>930,493</u>
Total assets	<u>2,090,175</u>	<u>8,877,893</u>	<u>1,573,110</u>
Liabilities			
Accounts payable	2,040	83,757	7,734
Accrued salaries and wages	9,885	18,226	732
Accrued compensated absences - Current	32,159	56,920	-
Accrued compensated absences - Noncurrent	98,694	35,671	-
Due to other funds	-	-	-
Deferred special assessments	-	-	-
Total liabilities	<u>142,778</u>	<u>194,574</u>	<u>8,466</u>
Net Assets			
Invested in capital assets - Net of related debt	255,191	5,994,122	930,493
Unrestricted	<u>1,692,206</u>	<u>2,689,197</u>	<u>634,151</u>
Total net assets	<u>\$ 1,947,397</u>	<u>\$ 8,683,319</u>	<u>\$ 1,564,644</u>

**Other Supplemental Information
Internal Service Funds
Combining Statement of Net Assets
June 30, 2005**

Insurance Claims Fund	Special Assessment Revolving Fund	Totals
\$ 743,396	\$ 2,519,657	\$ 8,232,222
1,867	-	2,401
-	119,056	119,056
-	-	19,666
-	150,000	150,000
-	-	372,003
25,000	-	25,000
<u>770,263</u>	<u>2,788,713</u>	<u>8,920,348</u>
-	448,495	448,495
-	-	45,000
-	-	371,153
-	-	2,730,189
-	-	12,242,501
-	-	2,912,896
-	-	18,301,739
-	-	(11,121,933)
-	-	7,179,806
<u>770,263</u>	<u>3,237,208</u>	<u>16,548,649</u>
9,410	-	102,941
-	-	28,843
-	-	89,079
-	-	134,365
-	1,000,000	1,000,000
-	448,495	448,495
<u>9,410</u>	<u>1,448,495</u>	<u>1,803,723</u>
-	-	7,179,806
<u>760,853</u>	<u>1,788,713</u>	<u>7,565,120</u>
<u>\$ 760,853</u>	<u>\$ 1,788,713</u>	<u>\$ 14,744,926</u>

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Operating Revenues			
Charges for services - Internal	\$ 1,077,728	\$ 127,611	\$ -
Miscellaneous	-	46,788	-
Rental	-	2,726,792	251,205
Total operating revenues	1,077,728	2,901,191	251,205
Operating Expenses			
Operations	889,525	2,058,192	218,419
Depreciation	114,236	1,103,781	67,260
Total operating expenses	1,003,761	3,161,973	285,679
Net Operating Income (Loss)	73,967	(260,782)	(34,474)
Nonoperating Revenues (Expenses)			
Investment earnings	35,779	57,764	12,793
Gain on disposal of assets	3,090	173,913	(2,494)
Miscellaneous revenue	-	5,807	63
Miscellaneous expenses	(25,783)	(173,847)	-
Total nonoperating revenues	13,086	63,637	10,362
Income (Loss) - Before capital contributions and operating transfers	87,053	(197,145)	(24,112)
Capital Contributions	1,028	260,773	-
Operating Transfers In	-	-	-
Change in Net Assets	88,081	63,628	(24,112)
Net Assets - Beginning of year	1,859,316	8,619,691	1,588,756
Net Assets - End of year	<u>\$ 1,947,397</u>	<u>\$ 8,683,319</u>	<u>\$ 1,564,644</u>

Other Supplemental Information
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2005

Insurance Claims Fund	Special Assessment Revolving Fund	Total
\$ 991,792	\$ -	\$ 2,197,131
-	-	46,788
-	-	2,977,997
<u>991,792</u>	<u>-</u>	<u>5,221,916</u>
856,621	-	4,022,757
-	-	1,285,277
<u>856,621</u>	<u>-</u>	<u>5,308,034</u>
<u>135,171</u>	<u>-</u>	<u>(86,118)</u>
-	(3,522)	102,814
-	-	174,509
-	-	5,870
-	-	(199,630)
<u>-</u>	<u>(3,522)</u>	<u>83,563</u>
135,171	(3,522)	(2,555)
-	-	261,801
-	107,348	107,348
135,171	103,826	366,594
<u>625,682</u>	<u>1,684,887</u>	<u>14,378,332</u>
<u>\$ 760,853</u>	<u>\$ 1,788,713</u>	<u>\$ 14,744,926</u>

City of Midland, Michigan

	Data Processing Fund	Equipment Revolving Fund	Service Center Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,177,678	\$ 2,901,191	\$ 251,205
Payment to suppliers	(412,572)	(1,221,953)	(168,188)
Payment to employees	(597,819)	(1,210,074)	(45,856)
Other receipts (payments)	-	5,806	63
Net cash provided by (used in) operating activities	<u>167,287</u>	<u>474,970</u>	<u>37,224</u>
Cash Flows from Noncapital Financing Activities -			
Operating transfers in (out)	-	-	-
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(48,648)	(1,308,893)	(33,947)
Interest paid	-	-	-
Proceeds from sale of capital assets	-	203,112	-
Net cash used in capital and related financing activities	(48,648)	(1,105,781)	(33,947)
Cash Flows from Investing Activities - Investment earnings	<u>32,163</u>	<u>53,270</u>	<u>11,566</u>
Net Increase (Decrease) in Cash and Cash Equivalents	150,802	(577,541)	14,843
Cash and Cash Equivalents - Beginning of year	<u>1,676,819</u>	<u>3,078,877</u>	<u>625,369</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 1,827,621</u></u>	<u><u>\$ 2,501,336</u></u>	<u><u>\$ 640,212</u></u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 73,967	\$ (260,782)	\$ (34,474)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	114,236	1,103,781	67,260
Miscellaneous cash received (paid)	(25,783)	(168,042)	64
Changes in operating assets and liabilities:			
Accounts receivable	(50)	-	-
Inventory	-	(62,941)	-
Accounts payable	(1,994)	(121,406)	4,149
Accrued salaries and wages	2,628	7,789	225
Compensated absences, death benefits, and workers' compensation	4,283	(23,429)	-
Net cash provided by (used in) operating activities	<u><u>\$ 167,287</u></u>	<u><u>\$ 474,970</u></u>	<u><u>\$ 37,224</u></u>

Other Supplemental Information
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2005

Insurance Claims Fund	Special Assessment Revolving Fund	Total
\$ 991,793	\$ -	\$ 5,321,867
(854,864)	-	(2,657,577)
-	-	(1,853,749)
-	(1,341)	4,528
<u>136,929</u>	<u>(1,341)</u>	<u>815,069</u>
-	107,348	107,348
-	-	(1,391,488)
-	(77,223)	(77,223)
-	-	203,112
-	(77,223)	(1,265,599)
-	76,899	173,898
136,929	105,683	(276,632)
<u>606,467</u>	<u>2,413,974</u>	<u>8,401,506</u>
<u>\$ 743,396</u>	<u>\$ 2,519,657</u>	<u>\$ 8,232,222</u>
\$ 135,171	\$ -	(86,118)
-	-	1,285,277
-	-	(193,761)
-	(1,341)	(1,391)
-	-	(62,941)
1,758	-	(117,493)
-	-	10,642
-	-	(19,146)
<u>\$ 136,929</u>	<u>\$ (1,341)</u>	<u>\$ 815,069</u>

Statistical Section

City of Midland, Michigan

Fiscal Year	Property Taxes	State-shared Revenue	Other Agencies	Investment Earnings	Charges for Services
1995-96	\$ 19,269,784	\$ 5,844,633	\$ 381,968	\$ 918,752	\$ 929,196
1996-97	19,543,640	5,972,778	196,356	1,123,333	938,305
1997-98	25,628,944	6,434,629	261,120	1,483,895	983,575
1998-99	26,087,384	7,006,247	427,159	1,776,451	1,357,534
1999-00	28,353,669	7,214,638	285,067	2,356,193	1,570,854
2000-01	29,366,066	7,801,807	521,035	3,137,488	1,728,087
2001-02	29,162,659	7,837,492	521,624	1,507,370	2,001,906
2002-03*	32,623,101	8,190,673	513,973	1,035,995	942,646
2003-04*	35,601,237	8,111,101	642,196	1,147,227	939,090
2004-05*	28,248,461	7,936,192	456,900	1,424,902	2,271,604

Percent of Total Revenue					
1995-96	63.38%	19.22%	1.26%	3.02%	3.06%
1996-97	62.17	19.00	0.62	3.57	2.98
1997-98	67.27	16.89	0.69	3.89	2.58
1998-99	65.31	17.54	1.07	4.45	3.40
1999-00	66.89	17.02	0.67	5.56	3.71
2000-01	64.58	17.16	1.15	6.90	3.80
2001-02	66.09	17.76	1.18	3.42	4.54
2002-03	70.98	17.82	1.12	2.25	2.05
2003-04	70.53	16.07	1.27	2.27	1.86
2004-05	64.29	18.06	1.04	3.24	5.17

* Includes additional Special Revenue Funds as a result of the City's implementation of GASB 34. 2001-2002 fiscal year numbers were not restated to reflect these additional funds.

Statistical Information
General Government Revenues by Source
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years
(Unaudited)

Use and Admission Fees	Library Services	Licenses and Permits	Other Revenues	Total
\$ 475,320	\$ 483,438	\$ 398,067	\$ 1,704,185	\$ 30,405,343
499,520	520,238	533,449	2,106,415	31,434,034
481,528	580,841	510,921	1,732,856	38,098,309
514,985	511,334	442,978	1,819,066	39,943,138
544,312	533,010	442,361	1,091,151	42,391,255
553,197	579,259	537,986	1,248,097	45,473,022
615,346	551,568	505,920	1,424,912	44,128,797
639,979	583,807	527,862	901,467	45,959,503
769,802	735,818	658,986	1,870,217	50,475,674
793,634	616,097	650,985	1,537,142	43,935,917

1.56%	1.59%	1.31%	5.60%
1.59	1.66	1.70	6.71
1.26	1.52	1.34	4.56
1.29	1.28	1.11	4.55
1.28	1.26	1.04	2.57
1.22	1.27	1.18	2.74
1.39	1.25	1.15	3.22
1.39	1.27	1.15	1.97
1.53	1.46	1.31	3.70
1.81	1.40	1.48	3.51

City of Midland, Michigan

Fiscal Year	Public Safety	Public Works	Parks and Recreation	General Government
1995-96	\$ 8,599,968	\$ 5,397,934	\$ 2,945,419	\$ 3,135,626
1996-97	8,618,067	5,400,266	2,893,703	3,358,226
1997-98	8,116,770	5,665,048	3,129,166	3,990,861
1998-99	8,425,944	5,596,876	3,065,359	5,614,263
1999-00	8,070,567	5,722,972	3,124,882	3,506,126
2000-01	8,113,997	6,494,579	3,265,055	3,867,774
2001-02	8,450,083	6,662,006	3,341,863	4,119,864
2002-03*	9,027,665	14,374,248 (-1)	3,403,096	3,199,646
2003-04*	9,534,824	11,053,409 (-1)	3,595,455	3,299,564
2004-05*	10,904,979	20,918,275 (-1)	3,819,880	4,606,024

Percent of Total Expenditures

1995-96	32.13%	20.17%	11.00%	11.71%
1996-97	31.01	19.43	10.41	12.08
1997-98	28.31	19.76	10.91	13.92
1998-99	27.90	18.53	10.15	18.59
1999-00	25.98	18.43	10.06	11.29
2000-01	24.82	19.86	9.99	11.83
2001-02	22.80	17.98	9.02	11.12
2002-03	20.37	32.44	7.68	7.22
2003-04	22.76	26.38	8.58	7.88
2004-05	19.08	36.60	6.68	8.06

* Includes additional Special Revenue Funds as a result of the City's implementation of GASB No. 34. Prior fiscal year numbers were not restated to reflect these additional funds.

(1) Includes capital improvements, which were not reported for fiscal years prior to 2002-2003.

(2) Includes the Transportation Fund, which was reported as an Enterprise Fund prior to 2002-2003.

Statistical Information
General Government Expenditures by Function
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years
(Unaudited)

Debt Retirement	Library	Airports	Other Functions	Total
\$ 1,484,170	\$ 2,258,539	\$ 210,526	\$ 2,734,777	\$ 26,766,959
1,423,832	2,444,086	160,434	3,492,060	27,790,674
1,455,820	2,707,571	103,921	3,504,589	28,673,746
1,415,032	2,785,100	103,296	3,198,509	30,204,379
1,363,614	2,991,871	266,376	6,012,832	31,059,240
1,402,310	3,048,146	151,400	6,351,311	32,694,572
1,874,557	3,204,195	151,719	9,252,545	37,056,832
162,005	3,392,062	160,330	10,591,051 (2)	44,310,103
163,916	3,476,621	184,629	10,585,370 (2)	41,893,788
326,567	3,729,225	201,404	12,648,068 (2)	57,154,422

5.54%	8.44%	0.79%	10.22%
5.12	8.79	0.58	12.58
5.08	9.44	0.36	12.22
4.68	9.22	0.34	10.59
4.39	9.63	0.86	19.36
4.29	9.32	0.46	19.43
5.06	8.65	0.41	24.96
0.37	7.66	0.36	23.90
0.39	8.30	0.44	25.27
0.57	6.52	0.35	22.14

City of Midland, Michigan

Statistical Information Tax Information Year Ended June 30, 2005

Property Taxes: The City's taxes are due and payable and a lien created upon the assessed property on July 1 each year. Real property taxes remaining unpaid on the following March 1 are turned over to the County Treasurer for collection. If real property taxes are not paid within two years from the May 1 deadline, the property is sold to satisfy this lien.

Midland and Bay Counties have established a Delinquent Tax Revolving Fund which purchases all real property taxes returned delinquent as of March 1 of each year. Uncollected personal property taxes are negligible.

Taxable property in the City is assessed by the City Assessor and is subject to review by the County Board of Equalization.

Starting in 1995, property taxes have been calculated using taxable value rather than state equalized value, which was used prior to 1994. This change became effective when the governor, on December 29, 1994, signed into law Public Act No. 415 of 1994. Increases in taxable value are limited to 5 percent, the Consumer Price Index, or increases in state equalized value, whichever is less. These limits are calculated on a parcel-by-parcel basis. This legislation did not change the method of computing assessed value and the system of county and state equalization. The "traditional" assessed value is still required to be 50 percent of market value.

The City Charter provides a tax rate limitation for general operation at \$18.00 per \$1,000 of taxable value. Additionally, the City may levy taxes in excess of this limitation, pursuant to state law, for the following purposes:

<u>Purpose</u>	<u>Authority</u>	<u>Rate per \$1,000 T.V.</u>
Police and fire pension requirements	Act 345, Public Acts of Michigan, 1937 as amended	As needed
Refuse collection and disposal	Act 298, Public Acts of Michigan, 1917, as amended	\$ 3.00

On November 7, 1978, Article 9, Section 6, of the 1963 Michigan Constitution was amended, placing certain limitations on increases of property taxes. The amendment does not limit taxes imposed for the payment of bonds or other indebtedness which have been approved by the voters.

City of Midland, Michigan

Statistical Information Tax Information (Continued) Year Ended June 30, 2005

Industrial Facilities Tax - The Michigan Plant Rehabilitation and Industrial Development Districts Law provides significant tax incentives to industry to renovate and expand aging plants and to build new plants in Michigan. Under the provisions of the Act, qualifying cities, villages, and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new plants to the area. Firms situated in such districts pay an Industrial Facilities Tax (IFT) in lieu of property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the assessed value is frozen at previous levels. New plant and equipment are taxed at one-half the current millage rate. It must be emphasized, however, that ad valorem property taxes on land and inventories are specifically excluded under the Act.

Tax Administration Fee - Public Act 206 of 1893, as amended, empowers local units of government to charge an administration fee of up to 1 percent to offset actual costs incurred in assessing property values, collecting property tax levies, and in the review and appeal processes. This fee, which is added to each tax bill and is paid by the property owners, is calculated by multiplying the property tax owed by 1 percent on both the winter and summer tax bills. The City began charging a 1 percent tax administration fee on both the summer and winter tax bills for 1997. The revenue generated from this fee is being used for contracted legal and appraisal services involved in defending tax appeals and to begin work on a complete revaluation of property in the City.

City of Midland, Michigan

Statistical Information Value of Taxable Property Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property		Total	
	Taxable Value	Full Value	Taxable Value	Full Value	Taxable Value	Full Value
1995-96	\$ 1,010,005,100	\$ 2,026,398,200	\$ 959,031,900	\$ 1,918,063,800	\$ 1,969,037,000	\$ 3,944,462,000
1996-97	1,037,774,300	2,084,502,800	960,273,000	1,920,546,000	1,998,047,300	4,005,048,800
1997-98	1,065,697,500	2,144,223,000	956,887,900	1,913,775,800	2,022,585,400	4,057,998,800
1998-99	1,095,869,750	2,210,177,300	968,714,000	1,937,428,000	2,064,583,750	4,147,605,300
1999-00	1,132,848,300	2,265,696,600	1,011,985,200	2,023,970,400	2,144,833,500	4,289,667,000
2000-01	1,174,316,700	2,348,633,400	987,213,300	1,974,426,600	2,161,530,000	4,323,060,000
2001-02	1,221,339,400	2,442,678,800	1,018,557,300	2,037,114,600	2,239,896,700	4,479,793,400
2002-03	1,338,981,200	2,677,962,400	1,217,591,600	2,435,183,200	2,556,572,800	5,113,145,600
2003-04 (1)	1,959,583,600	3,919,167,200	434,258,000	868,516,000	2,393,841,600	4,787,683,200
2004-05	2,017,112,800	4,034,225,600	408,075,800	816,151,600	2,425,188,600	4,850,377,200

(1) For 2003-2004, buildings on leased land were reclassified from personal property to real property.

Source: City's Assessing Department

City of Midland, Michigan

Statistical Information Property Tax Levies and Collections Last Ten Fiscal Years

Fiscal Year	Original Tax Levy	Current Tax Collections	Percent Collected Current	Delinquent Tax Collections	Total Tax Collections
1995-96	\$ 18,931,761	\$ 18,757,494	99.1	1,519	\$ 18,757,494
1996-97	19,197,740	19,075,017	99.2	31,231	19,075,017
1997-98	24,355,288	24,154,200	99.0	30,791	24,154,200
1998-99	24,817,502	24,705,051	99.3	43,329	24,705,051
1999-00	27,029,454	26,786,861	99.1	5,151	26,786,861
2000-01	28,005,663	27,763,188	99.1	2,215	27,763,188
2001-02	27,793,182	27,567,733	99.1	21,766	27,567,733
2002-03	28,804,136	28,488,644	98.8	6,815	28,488,644
2003-04	31,708,040	31,470,866	99.2	10,283	31,470,866
2004-05	24,169,118	23,967,130	99.2	8,098	23,975,228

Source: City's financial records

City of Midland, Michigan

Statistical Information Property Tax Rates - Direct and Overlapping Governments Last Ten Fiscal Years

Fiscal Year	City of Midland *	Midland Public School District	Midland County	Delta College	Midland Intermediate School District	State Education
1995-96						
Homestead	9.300	5.3257	7.4513	2.0427	1.1756	6.00
Non-Homestead	9.300	18.0000	7.4513	2.0427	1.1756	6.00
1996-97						
Homestead	9.300	4.6400	8.2096	2.0427	1.1756	6.00
Non-Homestead	9.300	17.2978	8.2096	2.0427	1.1756	6.00
1997-98						
Homestead	11.600 (1)	5.1762	8.2874	2.0427	1.1756	6.00
Non-Homestead	11.600 (1)	18.0000	8.2874	2.0427	1.1756	6.00
1998-99						
Homestead	11.600 (1)	4.9211	7.7254	2.0427	1.1756	6.00
Non-Homestead	11.600 (1)	18.0000	7.7254	2.0427	1.1756	6.00
1999-00						
Homestead	12.120 (1)	4.7248	8.1955	2.0427	1.1756	6.00
Non-Homestead	12.120 (1)	18.0000	8.1955	2.0427	1.1756	6.00
2000-01						
Homestead	12.480 (1)	4.5237	8.3155	2.0427	1.1756	6.00
Non-Homestead	12.480 (1)	18.0000	8.3155	2.0427	1.1756	6.00
2001-02						
Homestead	12.000 (1)	4.2526	8.2655	2.5427	1.1756	6.00
Non-Homestead	12.000 (1)	18.0000	8.2655	2.5427	1.1756	6.00
2002-03						
Homestead	11.760 (1)	6.0970	8.3055	2.5427	1.1756	6.00
Non-Homestead	11.760 (1)	20.0000	8.3055	2.5427	1.1756	6.00
2003-04						
Homestead	12.900 (1)	5.8585	8.0255	2.5427	1.1756	5.00
Non-Homestead	12.900 (1)	20.0000	8.0255	2.5427	1.1756	5.00
2004-05						
Homestead	9.870 (2)	5.7692	8.1455	2.0427	1.1756	6.00
Non-Homestead	9.870 (2)	20.0000	8.1455	2.0427	1.1756	6.00

* Includes voter approved debt millage

Note: Tax rates are applied upon each \$1,000 of taxable value.

(1) The City of Midland property tax rate was increased in 1997/1998 through 2003/2004 for a special tax appeal millage.

(2) The City of Midland property tax rate was decreased in 2004/2005 due, in part, to a reduction in the tax appeal millage.

Source: City's Assessing Department

City of Midland, Michigan

Statistical Information Gross Property Tax Levies - Direct and Overlapping Governments (A) Last Ten Fiscal Years

Fiscal Year	City of Midland (B)	School Districts (C)	Counties (D)	Delta College	Downtown Development Authority	Total
1995-96	\$ 18,931,761	\$ 44,529,388	\$ 15,142,098	\$ 4,158,269	\$ 38,977	\$ 82,800,493
1996-97	19,197,740	43,538,780	16,954,058	4,216,688	39,781	83,947,047
1997-98	25,270,017	45,411,140	17,394,402	4,288,843	39,225	92,403,627
1998-99	25,734,200	45,902,084	16,555,870	4,370,237	39,987	92,602,378
1999-00	28,006,562	47,811,260	18,282,506	4,555,526	40,064	98,695,918
2000-01	28,992,276	47,717,179	18,668,999	4,583,778	37,884	100,000,116
2001-02	28,810,150	48,840,260	19,151,033	5,889,017	39,448	102,729,908
2002-03	32,145,783	58,803,485	20,365,637	6,697,617	40,758	118,053,280
2003-04	32,843,747	53,725,916	19,742,117	6,252,743	40,807	112,605,330
2004-05	25,635,655	56,182,963	19,958,895	5,085,164	39,616	106,902,293

(A) Reported amount includes TIF proceeds.

(B) 1997-98 through present amounts include a 1 percent tax administration fee.

(C) Includes the portion of these taxing units located within the city limits: Midland Public Schools, Midland County Education Services Agency, Bay-Arenac Intermediate School District, Bullock Creek Schools, Bay City Schools, and State Education tax.

(D) Includes the portion of these taxing units located within the city limits: Midland County and Bay County.

Source: City's Assessing Department

City of Midland, Michigan

Statistical Information 2003 Ten Largest Taxpayers Year Ended June 30, 2005

	Taxable Value	Percentage of City Total
Midland Cogeneration Venture	\$ 601,572,800	24.80%
Dow Chemical/Dow Agrosciences	414,400,100	17.09
Dow Corning	175,113,400	7.22
Consumers Power Company	16,466,900	0.68
Midland Venture Limited Partnership (Mall)	14,236,200	0.59
Meijers Inc	6,411,100	0.26
Alliance TP Portfolio (Apartments)	6,029,000	0.25
IBM Credit LLC	5,923,500	0.24
Nicolaos Rapanos	5,543,000	0.23
MVCC Ltd. Partnership (Ashman Court Hotel)	5,293,200	0.22
Total	<u><u>\$ 1,250,989,200</u></u>	<u><u>51.58%</u></u>
City of Midland Total	<u><u>\$ 2,425,188,600</u></u>	

The individual values are for real and personal property owned by the designated taxpayer, but not including industrial facilities taxable amounts.

Source: City's Assessing Department

City of Midland, Michigan

Statistical Information Special Assessment Collections Last Ten Fiscal Years

Fiscal Year	Current Special Assessment Installment Due	Total Current and Delinquent Collections*
1995-96	\$ 511,742	\$ 511,742
1996-97	407,698	407,698
1997-98	356,859	356,859
1998-99	329,639	329,639
1999-00	258,379	258,379
2000-01	218,285	218,285
2001-02	166,174	166,174
2002-03	211,300	211,300
2003-04	199,405	199,405
2004-05	207,809	207,809

* Midland County refunds the City for all delinquent special assessments through their Delinquent Tax Revolving Fund.

Source: City's financial records

City of Midland, Michigan

Statistical Information Computation of Legal Debt Margin Year Ended June 30, 2005

Taxable Valuation - December 31, 2004: \$2,425,188,600

	Actual Direct Debt	Statutory Percentage of Taxable Valuation	Statutory Limit	Legal Debt Margin
General Obligation Debt	\$ 17,600,438	10	\$ 242,518,860	\$ 224,918,422
Special Assessment Debt	-	12	291,022,632	291,022,632

Limitations on Borrowing

Act 279, Public Acts of Michigan, 1909, as amended, and provisions of the City Charter state that net bonded indebtedness of the City shall not exceed 10 percent of the City's assessed valuation.

Bonds which are not required to be included in this computation of net indebtedness, according to said Act 279, are:

- A. Special Assessment Bonds
- B. Mortgage Bonds
- C. Motor Vehicle Highway Fund Bonds
- D. Revenue Bonds
- E. Bonds issued, or contracts or assessment obligation, incurred to comply with an order of the Water Resources Commission or a court of competent jurisdiction
- F. Other obligations incurred for water supply, sewage, drainage or refuse disposal projects necessary to protect the public health by abating pollution.

City of Midland, Michigan

Statistical Information Direct, Indirect, and Overlapping Debt Year Ended June 30, 2005

Jurisdiction	Dated	Amount	Amount Outstanding
<u>Direct Debt</u>			
General Obligation Bonds:			
Wastewater System Bonds	11/01/1989	\$ 400,000	
Wastewater System Bonds	10/01/1990	725,000	
Wastewater Construction Bonds	04/01/2001	12,225,000	
State Revolving Fund Bonds	12/20/2001	4,359,063	
Downtown Development Authority Bonds	10/01/1992	250,000	
Civic Arena	9/1/2004	6,500,000	
Total General Obligations Bonds		24,459,063	
Revenue Bonds - Water Revenue Bonds	02/01/2000	5,775,000	
Total direct debt			\$ 30,234,063
Capital Lease Payable			1,498,454
Less:			
Self Supported G.O. Bonds:			
20% of Wastewater System Bonds supported by Wastewater System user fees		225,000	
40% of Wastewater System Bonds supported by Wastewater System user fees		6,633,625	
Revenue Bonds		5,775,000	12,633,625
Net direct debt			19,098,892
<u>Indirect Debt</u>			
City's share - Saginaw-Midland Water Supply Corporation Bonds		10,232,559	
Less amount paid from City's water earnings		10,232,559	
Net indirect debt			-
<u>Overlapping Debt</u>			
	Net Tax Supported Debt	City Share	
71.71% Midland County	\$ 2,282,990	\$ 1,619,325	
.18% Bay County	30,719,668	52,223	
1.80% Bullock Creek School District	15,963,778	272,981	
.30% Bay City School District	13,385,000	38,817	
.15% Bay Arenac ISD	635,000	953	
Net overlapping debt			1,984,299
Net direct, indirect, and overlapping debt			<u>\$ 21,083,191</u>
Per Capita Debt (42,175 population):			
Net direct debt			\$ 452.85
Net indirect debt			0.00
Net overlapping debt			47.05
Total per capita direct, indirect, and overlapping debt			<u>\$ 499.90</u>

City of Midland, Michigan

Statistical Information Property Value, Construction, and Bank Deposits Last Ten Fiscal Years

Fiscal Year	Property Values (A)	Construction (B)	Bank Deposits (C)
1995-96	\$ 3,944,462,000	\$ 18,093,914	\$ 510,956,000
1996-97	4,005,048,800	37,957,046	550,609,000
1997-98	4,057,998,800	47,763,801	499,676,000
1998-99	4,147,605,300	46,061,266	491,050,000
1999-00	4,289,667,000	41,517,466	488,836,000
2000-01	4,323,060,000	56,210,918	1,221,563,000
2001-02	4,479,793,400	66,338,161	1,283,712,000
2002-03	5,113,145,600	52,098,649	1,332,973,000
2003-04	4,778,677,000	53,838,620	1,290,591,000
2004-05	4,850,377,200	48,331,966	1,319,376,000

(A) City's Assessing Department

(B) City's Building Department

(C) FDIC Annual Report of Deposits per Chemical Bank

City of Midland, Michigan

Statistical Information Ratio of Annual Debt Service Requirements for General Bonded Debt to General Expenditures Last Ten Fiscal Years (Unaudited)

Fiscal Year	Principal	Interest and Fiscal Charges	Total Debt Service	Total General Expenditures*	Ratio of Debt Service To General Expenditures (Percent)
1995-96	\$ 939,000	\$ 545,170	\$ 1,484,170	\$ 26,766,959	5.54
1996-97	940,000	483,832	1,423,832	27,790,674	5.12
1997-98	1,017,000	438,820	1,455,820	28,673,746	5.08
1998-99	1,018,000	397,032	1,415,032	30,204,379	4.68
1999-00	1,012,000	351,614	1,363,614	31,059,240	4.39
2000-01	1,097,000	305,310	1,402,310	32,427,716	4.32
2001-02	1,241,000	633,557	1,874,557	37,056,832	5.06
2002-03	1,471,000	602,660	2,073,660	42,808,998	4.84
2003-04	1,343,000	581,863	1,924,863	39,653,124	4.85
2004-05	1,416,000	687,507	2,103,507	46,464,625	4.53

* Includes General, Special Revenue, and Debt Service Funds

Source: City's financial records

City of Midland, Michigan

Statistical Information Schedule of Revenue Bond Coverage Water Supply System Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1995-96	\$ 7,395,600	\$ 4,201,091	\$ 3,194,509	\$ 990,000	\$ 1,220,227	\$ 2,210,227	1.45
1996-97	7,763,929	4,896,789	2,867,140	980,000	1,160,779	2,140,779	1.34
1997-98	8,257,530	5,184,391	3,073,139	975,000	1,099,263	2,074,263	1.48
1998-99	8,923,318	5,522,026	3,401,292	1,120,000	1,033,063	2,153,063	1.58
1999-00	9,336,542	6,782,050	2,554,492	1,745,000	992,439	2,737,439	0.93
2000-01	8,937,836	5,932,598	3,005,238	1,105,000	587,603	1,692,603	1.78
2001-02	9,587,590	6,108,391	3,479,199	1,260,000	534,970	1,794,970	1.94
2002-03	9,732,581	5,924,678	3,807,903	1,325,000	475,294	1,800,294	2.12
2003-04	9,801,295	6,266,043	3,535,252	1,390,000	428,090	1,818,090	1.94
2004-05	10,307,652	7,165,252	3,142,400	1,335,000	328,336	1,663,336	1.89

City of Midland, Michigan

Statistical Information Ratio of Net Bonded Debt to State Equalized Value and Per Capita Last Ten Fiscal Years

Fiscal Year	Population (1)	State Equalized Values		Gross Bonded Debt	Debt Service Fund Balance	Less Self-Support G.O. & Rev. Bond Debt	Net Bonded Debt	Ratio of Net Bonded Debt to State Equalized Value	Net Bonded Debt Per Capita
1995-96	40,175	\$ 1,969,037,000	(2)	\$ 32,885,000	\$ 1,184	\$ 22,374,000	\$ 10,509,816	0.53	\$ 262
1996-97	40,210	1,998,047,300	(2)	30,215,000	6,490	20,644,000	9,564,510	0.48	238
1997-98	40,600	2,022,585,400	(2)	27,420,000	3,872	18,866,000	8,550,128	0.42	211
1998-99	40,650	2,064,583,750	(2)	24,445,000	3,624	16,909,000	7,532,376	0.36	185
1999-00	40,700	2,144,833,500	(2)	20,815,000	5,807	14,291,000	6,518,193	0.30	160
2000-01	41,685	2,161,530,000	(2)	31,285,000	21,901	17,698,000	13,565,099	0.63	325
2001-02	41,810	2,239,896,700	(2)	29,293,280	22,626	16,435,312	12,835,342	0.57	307
2002-03	41,935	2,556,572,800	(2)	29,858,961	118	16,170,584	13,688,259	0.54	326
2003-04	42,092	2,389,338,500	(2)	26,960,886	1,711	14,446,354	12,512,821	0.52	297
2004-05	42,175	2,425,188,600	(2)	30,234,063	7,984	12,633,625	17,592,454	0.73	417

(1) Estimates provided by City Planning Department

(2) Taxable value

City of Midland, Michigan

Statistical Information Economic and Statistical Data Year Ended June 30, 2005

Location and Area

The City of Midland, Michigan, consisting of 35.6489 square miles, is located in the east central portion of Michigan's Lower Peninsula. Midland is also the County Seat and the location of the corporate headquarters for The Dow Chemical Company. The City of Midland is a stable residential and industrial community with above-average incomes and educational levels. Many of the City's residents are professional, technical, or management employees of Dow Chemical and, to a large extent, the workforce is made up of employees with a chemical, research, or academic background.

The City of Midland, Michigan, in relation to other major cities in Michigan, is located approximately as follows:

- 120 miles northwest of Detroit
- 86 miles north of Lansing
- 111 miles northeast of Grand Rapids
- 19 miles west of Bay City
- 24 miles northwest of Saginaw
- 27 miles east of Mt. Pleasant

City Government

Midland is governed by a five-member elected City Council. Every two years, the Council elects one of its members to serve as mayor. Daily administration is headed by a City Manager. This Council-Manager form of government has been in effect since January 1945. The City's fiscal year commences July 1 and ends June 30.

City of Midland, Michigan

Statistical Information Economic and Statistical Data (Continued) Year Ended June 30, 2005

Statistical Data

Total	377	Full-time
Number	114	Part-time
Employees	<u>141</u>	Temporary and seasonal
	632	Total
Fire	3	Fire stations
Protection	45	Fire fighting personnel
	1	Clerical personnel
Police	1	Police station
Protection	48	Sworn police officers
	3	Clerical personnel
	18	Part-time crossing guards
Streets	78.33	Miles major streets
	153.19	Miles local streets
	16.05	Miles state highway

City of Midland, Michigan

Statistical Information Economic and Statistical Data (Continued) Year Ended June 30, 2005

Water Operation

Raw water is pumped from Lake Huron by the Saginaw-Midland Municipal Water Supply Corporation, a facility owned jointly by the two cities. The raw water is then pumped to the two communities for treatment at their individual treatment plants.

Water treatment plant capacity:	
Potable water	28.8 MGD
Industrial grade water	19.2 MGD
Customers:	
City - Potable water	15,465
Industrial water	2
Water District No. 1	2,818
Auburn	927
Homer Township	979
Larkin Township	657
Midland Township	507
Water mains	306 miles
Hydrants	2,701

Sewers	194 miles of sanitary sewers
	168 miles of storm sewers

Recreation	8 major parks
	7 active recreation parks
	55 neighborhood parks
	Total park area (approximately 2,700 acres)
	1 9-hole municipal par 3 golf course
	2 18-hole municipal golf courses
	1 3-sheet artificial ice rink arena
	1 municipal swimming pool
	1 15,000 ft. ² skateboard park
	1 beachfront park
	1 BMX track
	2 sprayground facilities

Population	1940 U.S. Census	10,329
	1950 U.S. Census	14,285
	1960 U.S. Census	27,779
	1970 U.S. Census	35,176
	1980 U.S. Census	37,269
	1990 U.S. Census	38,053
	2000 U.S. Census	41,685

City of Midland, Michigan

Statistical Information Demographic Statistics Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income</u>	<u>Median Age</u>	<u>School Enrollment (2)</u>
1995-96	40,175 *	\$ 19,347 (1)	33.1 (1)	9,434
1996-97	40,210 *	19,347 (1)	33.1 (1)	9,519
1997-98	40,600 *	19,347 (1)	33.1 (1)	9,618
1998-99	40,650 *	19,347 (1)	33.1 (1)	9,569
1999-00	40,700 *	19,347 (1)	33.1 (1)	9,616
2000-01	41,685 (1)	26,818 (1)	36.2 (1)	9,501
2001-02	41,810 *	26,818 (1)	36.2 (1)	9,688
2002-03	41,935 *	26,818 (1)	36.2 (1)	9,677
2003-04	42,092 *	26,818 (1)	36.2 (1)	9,636
2004-05	42,175 *	26,818 (1)	36.2 (1)	9,510

Sources:

* Estimates provided by City Planning Department

(1) U.S. Bureau of the Census

(2) According to fourth Friday counts for kindergarten, elementary, and middle/high schools, Midland Public School District (includes special education students)

Federal Awards Supplemental Information



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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the basic financial statements of the City of Midland, Michigan for the year ended June 30, 2005 and have issued our report thereon dated October 7, 2005. Those basic financial statements are the responsibility of the management of the City of Midland, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Midland, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards, reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards, and supplementary schedules related to the Transportation Fund are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Plante & Moran, PLLC

October 7, 2005

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**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Honorable Mayor and City Council
City of Midland, Michigan

We have audited the financial statements of the City of Midland, Michigan as of and for the year ended June 30, 2005 and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Midland, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Midland, Michigan in a separate letter dated October 7, 2005.

Compliance

As part of obtaining reasonable assurance about whether the City of Midland, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and City Council
City of Midland, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

/s/ Plante & Moran, PLLC

October 7, 2005

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and City Council
City of Midland, Michigan

Compliance

We have audited the compliance of the City of Midland, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The major federal program of the City of Midland, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Midland, Michigan's management. Our responsibility is to express an opinion on the City of Midland, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Midland, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Midland, Michigan's compliance with those requirements.

In our opinion, the City of Midland, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

To the Honorable Mayor and City Council
City of Midland, Michigan

Internal Control Over Compliance

The management of the City of Midland, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Midland, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Midland, Michigan's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

/s/ Plante & Moran, PLLC

October 7, 2005

City of Midland, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Grantor/Program Title	Federal CFDA Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Community Development Block Grant:	14.218		
B-02-MC-26-0037		\$ 336,000	\$ 2,143
B-03-MC-26-0037		313,000	<u>298,662</u>
Total U.S. Department of Housing and Urban Development			<u>300,805</u>
Office of Ground Water and Drinking Water, Environmental Protection Agency - Passed through State Revolving Fund Loan # 5199-01	66.468	1,220,573	<u>665</u>
U.S. Department of Transportation - Passed through Michigan Department of Transportation Section 5311 (formerly Section 18) Program Grants:	20.509		
2002-0068/Z4/R3 - (10/03 - 9/04)		146,908	31,663
2002-0068/Z6/R1 - (10/04 - 9/05)		173,752	141,201
National Highway Traffic Safety Administration - Passed through the State of Michigan, Department of State Police:			
Click It or Ticket Mobilization (PT-04-05)	20.602	20,008	9,545
Summer Enforcement (PT-05-63)	20.602	44,760	21,472
Traffic Enforcement Assoc. of Michigan (TEAM) (PT-05-44)	20.6	25,000	<u>1,025</u>
Total U.S. Department of Transportation			<u>204,906</u>
U.S. Department of Homeland Security - Passed through the State of Michigan, Department of State Police - State Domestic Preparedness Equipment Support Program - 03SHSGP Part II Training Grant	97.004	4,288	<u>4,288</u>
Federal Emergency Management Authority - Fire Operations and Firefighter Safety - EMW-2003-FG-17586	83.554	85,707	<u>26,350</u>
Total federal programs			<u><u>\$ 537,014</u></u>

City of Midland, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Federal revenue per financial statements (includes all funds)	\$ 456,900
Add program income classified as federal expenditures	135,665
Add State Revolving Fund loan not recorded as federal revenue	665
Less awarded from excess prior year monies granted in current fiscal year but expenses in prior year	(536)
2004 expenditures not reimbursed within 60 days after fiscal year end, therefore, included as 2005 revenues	(62,796)
Less deferred revenue at June 30, 2004	(5,448)
Add deferred revenue at June 30, 2005	<u>12,564</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 537,014</u>

City of Midland, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Midland, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts present in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount	
		Provided to Subrecipients	
Community Development Block Grant	14.218	\$	126,606

Note 3 - Loans Outstanding

The City had the following loan balances outstanding at June 30, 2005. Where required by OMB Circular A-133, these loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Amount	
	Outstanding	
EPA - State Revolving Fund Loan #5199-01	\$	4,359,063

City of Midland, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

City of Midland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Finding
2005-I	<p>Program Name - Community Development Block Grant</p> <p>Pass-through Entity - None</p> <p>Finding Type - Reportable condition and material noncompliance</p> <p>Criteria - The CDBG program allows for the reimbursement of allowable expenditures on a cost-reimbursement basis.</p> <p>Condition - The City submitted for a reimbursement of costs that had not yet been spent.</p> <p>Questioned Costs - \$29,541</p> <p>Context - During the current reporting year, the City requested reimbursement for costs that the City had not yet spent. Controls are in fact in place, yet were not operating as designed.</p> <p>Cause/Effect - The drawdown request was prepared and submitted without the usual review by the appropriate supervisor.</p> <p>Recommendations - Only funds actually spent on allowable CDBG costs should be remitted for reimbursement. Each drawdown request should be reviewed by a supervisor to ensure costs are allowable.</p> <p>Grantee Response - The City concurs with the recommendation above and has agreed to review all drawdown requests for allowability of costs prior to submitting the request.</p>

City of Midland, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2005-2	<p>Program Name - Community Development Block Grant</p> <p>Pass-through Entity - None</p> <p>Finding Type - Reportable condition and material noncompliance</p> <p>Criteria - Reimbursement requests should be offset by program income.</p> <p>Condition - The City submitted a reimbursement request and failed to include program income.</p> <p>Questioned Costs - None</p> <p>Context - On the City's first reimbursement request for the year ended June 30, 2005, total expenditures were not reduced by the amount of program income. This program income was not used as an offset to expenditures until the fourth quarter drawdown request.</p> <p>Cause/Effect - The City did not realize that it had approximately \$16,000 of program income from the previous fiscal year that the City needed to use to offset program-related expenses prior to sending a reimbursement request.</p> <p>Recommendations - In order to maintain adequate internal control, all program income should be used to offset federal expenditures prior to sending a drawdown request. All drawdown requests should be reviewed for items such as program income and allowable costs, prior to submission.</p> <p>Grantee Response - The City concurs with the recommendation above and has agreed to review all reimbursement requests to ensure program income is used to offset federal expenditures prior to submission.</p>

Additional Information
Transportation Fund (Dial-A-Ride)

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Operating Revenues Year Ended June 30, 2005

	<u>7/1/04 - 9/30/2004</u>	<u>10/1/04- 6/30/2005</u>	<u>Total</u>
Operating revenues:			
Customer fares	\$ 17,998	\$ 81,768	\$ 99,766
Contractual	<u>3,449</u>	<u>16,457</u>	<u>19,906</u>
 Total operating revenues	 <u>\$ 21,447</u>	 <u>\$ 98,225</u>	 <u>\$ 119,672</u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Operating Expenses Year Ended June 30, 2005

	Operations	Maintenance	General and Administration	Total
Labor:				
Operator's salaries and wages	\$ 601,582	\$ -	\$ -	\$ 601,582
Other salaries and wages	-	-	78,681	78,681
Dispatchers' salaries and wages	64,382	-	-	64,382
Fringe benefits	237,105	-	29,001	266,106
Services:				
Advertising fees	-	-	4,518	4,518
Audit fees	-	-	1,000	1,000
Other	-	160,342	123,669	284,011
Materials and supplies consumed:				
Fuel and lubricants	86,912	-	-	86,912
Other	2,975	-	634	3,609
Utilities - Telephone	253	-	-	253
Casualty and liability costs - Premiums for public liability and property damage insurance	13,846	-	-	13,846
Travel, meetings, and training	983	-	-	983
Leases and rentals	22,000	-	-	22,000
 Total operating expenses	 <u>\$ 1,030,038</u>	 <u>\$ 160,342</u>	 <u>\$ 237,503</u>	 <u>\$ 1,427,883</u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Nonoperating Revenues Year Ended June 30, 2005

	7/1/04 - 9/30/2004	10/1/04 - 6/30/2005	Total
Federal operating grants:			
U.S. DOT Operating Grant - Section 5311:			
Contract 2002-0068/Z4 (10/03 - 9/04)	\$ 31,663	\$ -	\$ 31,663
Contract 2002-0068/Z6 (10/04 - 9/05)	-	141,201	141,201
	31,663	141,201	172,864
Prior grant year audit adjustments	-	536	536
Total federal operating grants (a)	31,663	141,737	173,400
State of Michigan operating grants:			
Local bus operating assistance (Act 51)	122,114	437,610	559,724
RTAP training grant	873	-	873
Total state operating grants	122,987	437,610	560,597
City of Midland General Fund	137,672	474,100	611,772
Other nonoperating income	863	(1,621)	(758)
Total nonoperating revenues	<u>\$ 293,185</u>	<u>\$ 1,051,826</u>	<u>\$ 1,345,011</u>
(a) Federal operating grants as stated	\$ 173,400		
Add prior year expenditures not available within 60 days	5,448		
Less current year expenditures not available within 60 days	(12,564)		
Balance per financial statement	<u>\$ 166,284</u>		

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Schedule of Computation Net Eligible Cost of General Operations Year Ended June 30, 2005

	<u>Federal Section 5311</u>		<u>State Operating Assistance</u>	
	2002-0068/Z4	2002-0068/Z6		
	7/1/04- 9/30/2004	10/1/04- 6/30/2005	7/1/04- 9/30/2004	10/1/04- 6/30/2005
Expenses:				
Labor	\$ 156,564	\$ 588,081	\$ 156,564	\$ 588,081
Fringe benefits	56,128	209,978	56,128	209,978
Service	55,834	233,695	55,834	233,695
Materials and supplies	15,047	75,474	15,047	75,474
Utilities	-	253	-	253
Casualty and liability cost	-	13,846	-	13,846
Travel, meetings, and training	90	893	90	893
Leases and rentals	5,500	16,500	5,500	16,500
Net eligible expenses	<u>289,163</u>	<u>1,138,720</u>	<u>289,163</u>	<u>1,138,720</u>
Calculated reimbursement	<u>\$ 31,663</u>	<u>\$ 141,201</u>	<u>\$ 122,114</u>	<u>\$ 437,610</u>
Limited to cap of	<u>\$ 34,248</u>	<u>\$ 141,201</u>	<u>\$ 122,114</u>	<u>\$ 437,610</u>
Adjusted grant accrued/received	<u>\$ 31,663</u>	<u>\$ 141,201</u>	<u>\$ 122,114</u>	<u>\$ 437,610</u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Mileage Data Year Ended June 30, 2005

	Public Transit Mileage
Demand - Response:	
First quarter	\$ 108,164
Second quarter	120,960
Third quarter	120,695
Fourth quarter	<u>117,410</u>
Total	<u><u>\$ 467,229</u></u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) Property and Equipment Year Ended June 30, 2005

Vehicles	\$ 780,116
Office furniture and equipment	26,269
Shelters	15,940
Radio and antennae	<u>32,968</u>
Total property and equipment	855,293
Less accumulated depreciation	<u>(556,509)</u>
Net property and equipment	<u><u>\$ 298,784</u></u>

City of Midland, Michigan

Transportation Fund (Dial-A-Ride) **Schedule of Expenditures of State Awards** **Michigan Department of Transportation** **Year Ended June 30, 2005**

Program Title	(Accrued) Deferred Revenue July 1, 2004	Current Year			(Accrued) Deferred Revenue June 30, 2005
		Program Expenditures	State Receipts	Adjustments	
Operating assistance - 2002-03	\$ 47,658	\$ -	\$ -	\$ (47,658)	\$ -
Operating assistance - 2003-04	(11,052)	122,114	141,660	1,562	10,056
Operating assistance - 2004-05	-	437,609	391,239	-	(46,370)
Total	<u><u>\$ 36,606</u></u>	<u><u>\$ 559,723</u></u>	<u><u>\$ 532,899</u></u>	<u><u>\$ (46,096)</u></u>	<u><u>\$ (36,314)</u></u>